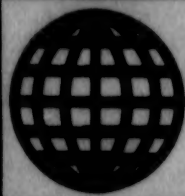


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19 January 1994



**FOREIGN
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JPRS Report

China

China

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Li Zehou Reflects on His Trip to Beijing

94CM0025A Hong Kong MING PAO YUE-KAN
[MING PAO MONTHLY] in Chinese No 10, Oct 93
pp 25-26

[Article by Li Zehou: "Trip to Beijing"]

[Text] This trip back to Beijing was like "lightning," it took me in total not more than twenty days. Besides the one or two friends who knew about it, there was almost no one else who knew, which greatly surprised friends overseas and in the mainland.

Friends ask me: "Why did you go back to Beijing?" "To get some books, and second, to meet some friends, especially good friends," I answer half jokingly. In fact, there might be more important reasons, like checking out the atmosphere and seeing Beijing.

It is strange that while I was in Beijing I hated it there, but after being away, I always think back to Beijing. I remember once returning to Beijing from Singapore. I walked on Xiwaida street, and the crowded pedestrians and the noisy environment made me immediately feel warm and happy: I had come back home. I also remember that on 11 June 1989, I went to Guangzhou, and my Hong Kong friends there advised me to leave the country. I hesitated for a while, but eventually decided to stay and after a little while I went back to Beijing (Even though I was a bit regretful later on). There are many reasons I did this, but among them there was an unconscious reason, a fear of being parted from Beijing. Anyhow, I lived for forty years in Beijing. It seems strange that although the last several times I was away from Beijing were for less time than this one, when I walked into my living and study rooms I always had some familiar and strange feelings. This time when going back, I of course also expected this kind of feeling. I do not know why the similar feelings did not arise: Everything was still familiar, just as if I had only left for several days.

Sure, everything seemed as familiar as before, and everything seemed unchanged. Beijing was still as crowded as before, dust was still flying around, and the air was still so unfresh. These feelings were emphasized having come from an extremely clean country such as Switzerland, which has less people and more space.

It may not have changed overall, but there still may be some smaller changes: There are more vendor stands selling food and clothing, especially the small yellow "loaf of bread" taxis that are all over the streets, and will stop when you wave to them. The fare is reasonable and inexpensive, at ten yuan per ten kilometers. Before, I have always said that among the four essential items of food, clothing, housing and transportation, the first three are satisfactory for the people of Beijing, with only transportation posing a problem—it is particularly difficult for people to get onto the public buses. Today, it seems that this problem has been solved. My friends all say so, and I have been happy about this for a long time.

Even though the yellow taxis may not look good in the scenery—this kind of extremely ugly bug crawling everywhere and polluting the air and environment badly—they benefit the people.

Over the course of a year, there have been some changes: More abundant commercial products, more crowded and noisy markets, higher quality clothes, more expensive restaurants, and more wealthy people. To get a haircut is seven yuan, but when I left the country it was only eight jiao. To take a shower is three yuan, but before it was six jiao. Of course the prices for grain, meat and vegetables, and clothes did not increase this much, and most of them did not increase by more than half. Thus it seems that my friends do not have many complaints. One friend told me that she earns six to seven hundred yuan per month which is enough to support a child. But I think that she cannot go to a restaurant on her salary. Even though not going to restaurants, she can still eat chicken, duck, fish and meat, which are not very expensive at market prices. Thus, let those who have the money and would like to pay for a restaurant go there. Also, there are different levels of restaurants. Even the food sold by the roadside is not completely inedible. I think this is very good and hope that the gap between rich and poor will not widen. Multiple life-styles, different options and levels of consumption are a healthy road for development. In this way the people who "would like to stay poor" have the means to "stay" poor; otherwise, if there is really no food to eat, how can those people carry out their studies?

Nevertheless, a lot of people still persuade me that I had better stay abroad, there is no research to do in China. Of course, I understand that in China to do research is not better than doing business. There will not be a "culture fashion," rather, the "doing business fashion" will continue to prevail. This is what I had expected, and I think this is a good thing. At the same time I also understand that there are still a lot of people who did not "jump into the ocean," or are unable to "jump into the ocean," or are not willing to "jump into the ocean," but are seriously pursuing their research. Moreover, there are younger intellectuals who are growing rapidly in number. They abandon politics, concentrating on knowledge. With strong ambitions and boundless enthusiasm, they came to see me. It seems that so long as you do not touch upon politics, and do not speak about human rights and democracy, you can read about Sartre, speak about Nietzsche, and write about Hobbes. No one will interrupt you. Two years ago people criticized my left-wing opinions, now people hardly repudiate me. As for those points that have been criticized, there are still a lot of people writing about them, using them, and "spreading" them. They just don't mention my name. This is very ridiculous, but history and truth are often absurd and astonishing, especially in today's China.

Of course, my friends are still unhappy that the news is still in the same form, with politics and ideology showing no signs of freedom. To recover the relatively lenient situation and environment prior to "4 June" is not very

easy. It still takes a lot of effort, and even a longer period of time. This is in my expectations. I also predict that there will not be a change for the time being. Changes come slowly, but I think that slow change also works as long as we do not go backward. Not going backward is going forward. Of course, that great change will come eventually. I still hope it will come gradually, step by step; if it comes too fast, too easy, too unbelievably, it may not be good. This year one of my students published an article that says that the object of philosophy is ideas, and "ideology" is already far removed from Marxist-Leninist philosophy; the article is written profoundly and logically. Thus it was published without questions, and nobody tried to stop it. Isn't this nice? Culture, knowledge and literature that were once denounced as "corrupt, anti-revolutionary, backward, modern western capitalistic" culture, are again circulated by publishing companies, isn't this good?

This trip to Beijing went very fast, altogether about twenty days. Besides Zaifu and one other friend who knew, there was almost nobody who knew before the trip, which greatly surprised my friends on the mainland and overseas. Since coming back to Beijing, I have of

course returned to my previous unit and also met several institution directors. After some small talk, one person laughed at my "lightning" trip, and criticized my anti-leftist articles in the journal FANGZUO BEIWANGLU [PREVENT LEFTISM MEMORANDUM]. I said that I agree with the "non-argument" principle, but are not the leftists still constantly attacking me? I of course had a reason to rejoin with my article in the fourth issue of ZHONGLIU, and to take a "lightning" approach when visiting Beijing to "prevent unexpected events." The director is also my friend, who smiled embarrassingly and again pointed out that my trip was welcomed and assured me of the freedom to come and go. This is really funny. When I was in Beijing, I read the July issue of the journal ZHENLI DE ZHUIQIU, which still carried the article criticizing my views. It is ironic that the writer who criticized me in various ways in the article eventually went to the United States to look for democracy, and it seems that he will never come back. After I read about this, I could not help secretly laughing: Does this mean that Beijing will always remain as your world? Today, haven't I come back? Moreover, I will still come back in the future. Beijing's democracy, and China's democracy, are more important to me than American democracy.

NATIONAL AFFAIRS, POLICY

Liu Guoguang on Modern Enterprise System

HK1201114594 Guangzhou Guangdong People's Radio Network in Mandarin 0400 GMT 8 Jan 93

[Text] What are the special characteristics of the modern enterprise system? How can modern enterprises be established? Liu Guoguang, a noted Chinese economist and vice president of the China Academy of Social Sciences, comprehensively elaborated his views and opinions on these questions this morning during a colloquium jointly sponsored by the provincial government general office and research center.

Liu Guoguang pointed out that the modern enterprise system differs from the conventional state-owned enterprise management mechanism in six aspects: 1) It operates on the basis of clearly defined property right relations; 2) it is characterized by the separation between government administration and enterprise management; 3) it is characterized by diversified investments; 4) it is run to achieve a single objective—the very function and target of modern enterprises is to make profit; 5) it practices limited liability management; and 6) it pursues the principle of survival of the fittest and lets enterprises operate under a competitive mechanism.

Liu Guoguang also presented his opinions on the ongoing project to introduce the company system into state-owned enterprises and on other supporting reforms as well.

Executive Vice Governor Lu Ruihua presided over the colloquium today.

Yu Guangyuan's Private Ownership Theory Viewed

94CM0035A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 10, 11 Oct 93
pp 14-19

[Article by Huang Rutong (7806 1172 2717): "Discussion on Past and Current Private, Public Ownership in China—Consultations With Comrade Yu Guangyuan"]

[Text] "A Very Big Subject, A Very Short Article—Past and Current Private and Public Ownership in China," a written form of speech by Comrade Yu Guangyuan (abbreviated hereafter as Yu's article), was printed and circulated in early June 1993 at an inaugural meeting for the Chinese Society of Private Economy. After the meeting, it was published by ZHONGHUA GONGSHANG SHIBAO in June, and JINGJI RIBAO in August. Proceeding from the presupposition that the issue of public and private ownership is the theoretical basis for the private economy of China, Yu's article briefly analyzes the coexistent situation of public and private property in the history of human society and brings up some new views and ideas. I disagree with some of the viewpoints in Yu's article due to our differences in

viewing the history of the founding of the Chinese socialist system and the current situation of the socialist society, in understanding and applying the tenets of Marxism and the theory of building Chinese-style socialism, and in interpreting the party's principles and policies. Pursuant to the "double hundred policy" of the party, I will present some of my opinions on the following issues and submit them to Comrade Yu Guangyuan for discussions.

1. Is Private Ownership an Intrinsic Quality of a Capitalist Society?

Yu's article states: "Whether or not private ownership is an intrinsic quality of a capitalist society, like whether or not public ownership is an intrinsic quality of a socialist society, is a question that needs to be studied." Then, Yu's article quotes a paragraph from the "Critique of the Draft Program of the Socialist Democratic Party in 1891," which was published by Engels between 1901 and 1902: "As far as I know, capitalist production is a form of society and a stage of the economy, while capitalist private production is a phenomenon of one kind or another within this stage. But what is exactly capitalist private production? It is production managed by individual entrepreneurs. This kind of production has become more and more of an exception. Capitalist production managed by a corporation is no longer private production. Instead, it is production aimed to make profits for a group of people. If we look at the trust which controls and monopolizes the entire industry from the viewpoint of the corporation, we will know that not only private production has ceased but..." By quoting this paragraph, Yu's article implies that after the emergence of social organizations like corporation and trust, capitalist production ceased to be private production. Because of this, private ownership is not necessarily the intrinsic quality of capitalist society and production.

If I have not misunderstood the original meaning of this paragraph, then I cannot agree with the point of Yu's article which doubts that private ownership is the intrinsic quality of capitalist society. There are mainly two reasons:

1. Yu's article quotes the above paragraph of Engels out of context. Regarding the fourth paragraph in the introduction to the abovementioned draft program—"the lack of planning derived from the intrinsic quality of capitalist private production"—Engels' critique is that the word "private," should be deleted (Volume 22 of the Complete Works of Marx and Engels, page 270). Engels' reason is the same as the quote in Yu's article. This shows that according to Engels' viewpoint, capitalist production includes not only the capitalist production of individual enterprises but also the production of corporation and trust aimed to make profits for a group of people. Undoubtedly, the statement of Engels, after deleting the word "private," is a more comprehensive and accurate depiction of the intrinsic quality of capitalist production.

Therefore, is it okay to draw the conclusion that the intrinsic quality of capitalist society is not necessarily private ownership from the abovementioned Engels' statement on the coexistence of individual enterprises and corporations? No, it is not. This is because Engels also clearly points out, when he critiques the sixth paragraph in the introduction of the draft program: "Material and ideological conditions needed to change capitalist production, which benefits individuals or corporations, to socialist production, which benefits society as a whole and is carried out according to advanced planning, are created precisely by capitalist society itself. Only through such a change can the working class, and still further, all members of society without exception, be liberated" (Volume 22 of the Complete Works of Marx and Engels, page 279). This means that neither individual capitalist enterprises, nor corporations run by a group of capitalists, is engaged in socialist production that benefits society as a whole. Instead, they are engaged in capitalist production that benefits the bourgeoisie and is based on the capitalist private ownership of capital goods. What Engels stresses here is exactly the private quality intrinsic in the production of contemporary capitalism.

According to Marxist theory on the forms of social economy, capitalist society is the last society in human history where man exploits man. It is a society where the form of capitalist production occupies a dominant position, the capitalist private ownership of capital goods is the basis, and the objective is for the bourgeoisie to exploit the surplus value of hired labor. Marx said that the production of surplus value "is the direct objective and decisive motivation of capitalist production" and that "it must not be depicted as something it is not. In other words, we must never describe it as having the direct objective of enjoyment or producing goods of enjoyment for capitalists. If so, we will fail completely to see the salient feature in the entire intrinsic quality of such production." (Volume 25 of the Complete Works of Marx and Engels, page 272). This means that the essence of capitalist production is production of surplus value, whereas the precondition for the production of surplus value is the capitalist private ownership of capital goods. Because of this, we should say that private ownership is the intrinsic quality of a capitalist society.

II. In the History of Socialist Nations, Why Hasn't Private Property Been Eliminated?

Yu's article states: "There has been only a vain hope of eliminating as soon as possible private property, in the history of socialist nations. There has been no evidence that private property has been eliminated." What kind of private property or ownership does the word, "private property," refer to here? This has to be clarified first.

Marx and Engels pointed out in the "Manifesto of the Communist Party": "The salient feature of communism is not to abolish general ownership. It is to abolish the ownership system of bourgeoisie"; communism "wants to eliminate the ownership which is preconditioned by

the fact that the overwhelming majority of people in society do not own property"; and "communism does not deprive anyone of the right to own social products, it only takes away the right of using such ownership to enslave other people's labor." (Volume 1 of the Complete Works of Marx and Engels, pages 265 and 267). This means that the private property or ownership that socialism wants to eliminate is only the capitalist ownership system that uses the ownership of capital goods to exploit the surplus value created by hired laborers or the portion of bourgeois private property that belongs to the category of capital goods, not consumer goods owned and controlled by individuals in a capitalist society.

According to the above theories of Marx and Engels, whether or not the conclusion of Yu's article is correct should be obvious. In light of China's history, under the leadership of the Chinese Communist Party and through many years of struggle, the people of all nationalities in China reaped victory in the new democratic revolution, confiscated bureaucrat capital, and eliminated the bureaucrat-capitalist class (which will never be revived). Through the basic completion of socialist transformation of capitalist industry and trade in 1956, they further eliminated the capitalist exploitation system and the bourgeoisie, established a socialist system, and entered into a socialist society. Namely, China fulfilled the task of eliminating the private property of the bourgeoisie that exploits surplus value or the bourgeois system of private ownership of capital goods, which was the demand of Marxism. The reason that China had failed to fully develop socialist superiority after it established a basic socialist system is that the party committed "leftist" errors on the two major issues of how to build socialism and how to handle class struggle. It must not be blamed on the "so-called vain hope of the party and the state to eliminate as soon as possible private property," thus inadvertently playing down the great significance of establishing the socialist system in China. Like Comrade Deng Xiaoping pointed out: "Through many years of bloody struggle, our party and people established the socialist system. Although this socialist system is not yet complete and it has been undermined, it is after all much better than the capitalist system under which the weak are the prey of the strong and people harm others to benefit themselves. Our system will improve as each day goes by. It will absorb all progressive factors which we absorb from other nations and become the best system in the world." (*Selected Works of Deng Xiaoping on the Theory of Building Chinese-Style Socialism*, page 142).

Perhaps someone will ask: If the socialist transformation of capitalist industry and trade was basically completed in 1956 and the capitalist exploitation system and the bourgeoisie have been eliminated, then why do we want to develop the private economy that has the nature of capitalism? Doesn't this prove that the conclusion of Yu's article is correct? My answer to this question is as follows:

In 1956, around the time of the Eighth Party Congress, after socialist transformation was basically completed

and China's socialist system was established, central leading comrades such as Mao Zedong, Zhou Enlai, Liu Shaoqi, and Chen Yun, in view of the problems arising in the socialist transformation of capitalist industry and trade and of drawbacks of China's economic system created by the joint management of public and private industries, put forth a series of new theoretical viewpoints and corresponding principles and policies, on the basis of combining theory and practice. At the Eighth Party Congress, Comrade Chen Yun brought up the principle and policy of "three main bodies and three supplements." At the 52nd Standing Committee Meeting of the National People's Congress on 29 December 1956, Comrade Liu Shaoqi introduced the new thinking that "China is over 90 percent socialist. We should not be afraid to have a small percentage of capitalism as supplement and comparison." (See article by Hu Qiaomu 5170 0829 2606: "How Did China Choose Socialism in the 1950's," 3 October 89, RENMIN RIBAO) During his talks with responsible persons of the National Industrial and Commercial Association on 5, 7, and 8 December 1956, Chairman Mao brought up the new idea of "practicing capitalism after eliminating capitalism." He said: "The underground factories of Shanghai and joint ventures are also antithesis"; "To legalize them, we may hire workers"; "We may run privately-owned large factories, sign contracts, and promise that they will not be confiscated in the next 10 or 20 years. Overseas investment should not be confiscated for 20 or 100 years." "We can practice state and private ownership." "We can practice capitalism after eliminating it." (Bo Yibo 5631 0001 3134: "Review of Several Major Decisions and Events," Volume I, pages 433 and 434) Of course, by saying "practicing capitalism again," here Chairman Mao did not mean developing capitalism extensively and reestablishing the social system of capitalism. Instead, he meant that with regard to ownership structure, we should appropriately preserve and develop some private and individual economies and bring in overseas Chinese investment under the prerequisite that state and collective economies occupy the dominant position. By doing so, we can provide an "antithesis" for state and collective economies and preserve a certain amount of competitive mechanism. These new ideas of Chairman Mao revealed, in the ownership structure, a valuable spark of ideology concerning the socialist economy with Chinese characteristics.

Unfortunately, these valuable special ideas and policies regarding the building of Chinese-style socialism were not put into effect. They were later interrupted by erroneous leftist policies. Since the Third Plenary Session of the 11th CPC Central Committee, after bringing order out of chaos, the party and the state, under the guidance of the theory of building Chinese-style socialism and the basic party line, implemented a structure of ownership system under which socialist public ownership is dominant, other economic factors are supplementary, and multiple economic factors coexist. This is the carrying on and development of the new ideas and

policies put forth by central leading comrades before and after the Eighth Party Congress. In addition, the reform we are currently carrying out is not to "change the nature of our socialist system. It is self-improvement and development of a socialist system." Because of this, I think that the victory of new democratic revolution and the success of the 1956 socialist transformation enabled China to eliminate the capitalist exploitation system and the bourgeoisie. This is a historical fact proving that the socialist nation has eliminated the private property of the bourgeois class. Allowing and encouraging the development of the private economy in the current stage is precisely using the private economy to develop social productive forces after "achieving success in the revolution," thereby creating conditions for ultimately eliminating the exploitation phenomenon and transferring to a higher level of socialism. These two are not contradicting or opposed to each other. Yu's article states: "There have been vain hopes, but no evidence of eliminating as soon as possible private property." I think that these are only lies of Yu's article, not historical facts."

III. What Are the Characteristics of a Socialist Society?

Yu's article states: "General public property is not a special feature of a socialist society. All societies in history have public property." This is another issue that needs to be clarified.

It is true that all societies in history have public property. But in a slave, feudal, or capitalist society, public property belongs to, serves, and benefits a few people of the exploiting class. It does not belong to, serve, or benefit all members of society. Take the state property of a bourgeois nation for instance. It does not have the "capital property of eliminating productive forces." The more "productive forces a bourgeois nation occupies, the more likely that it will become a general capitalist who will exploit even more of its citizens. Workers will remain hired laborers and the proletariat. Instead of eliminating capital relations, it will be pushed to the extreme." (*The Selected Works of Marx and Engels*, Volume III, page 436) Because of this, bourgeois national public property which is used as a tool for the dictatorship of the bourgeoisie does not deserve its name. It is in essence the private property of a few people of the bourgeoisie. On the contrary, in a socialist society, public property is owned by all members of society and it serves and benefits all members of society. Here, public property is public property both in name and reality. This is the fundamental difference between a socialist and capitalist society. Engels said: "The decisive difference between the socialist system and the current existing system is, of course, organizing production on the basis that all capital goods are owned publicly (first in individual nations)." (*The Complete Works of Marx and Engels*, Volume 37, page 443). Because of this, eliminating the private ownership and establishing the public ownership system of capital goods, namely establishing genuine public property owned by society as a whole, are the characteristics of a socialist society.

IV. Why Do We Need To Advocate "Sacred Private Property"?

Yu's article states: "Only by regarding both public and private property as sacred can socialist society survive and progress." This concept needs studying. We all know that the Constitution of China stipulates: "The public property of socialism is sacred and inviolable." This is completely correct because China is a socialist country whose economic basis is a socialist public ownership system. Therefore, is it necessary to consider the private property of private economy with capitalist nature in China as sacred? My answer is negative. The reasons are as follows:

1. In *Das Kapital* and the Manifesto of the Communist Party, Marx set forth the historical mission of "exploiting the exploiter" and "eliminating the bourgeois ownership system." The ultimate goal of communists is to eventually reach communist society via socialist society. In China, a socialist society where the capitalist exploitation system and the bourgeoisie have been eliminated, it is very strange for someone to advocate "private property being sacred," which is similar to that advocated by the foreign bourgeoisie during the period of bourgeois revolution, in order to exercise their control.

2. Although the ultimate goal of Marxism is to arrive at a communist society via socialism, it has been clearly pointed out at the same time that communists cannot abolish private ownership overnight, that socialist countries can only gradually transform existing society, and that only after producing the large amount of capital goods needed to abolish the private ownership system can the private ownership system be thoroughly eliminated.

After the Third Plenary Session of the 11th CPC Central Committee, our party, following the tenets of Marxism on gradually eliminating private ownership, set forth the basic line of "one center, two basic points" and the structure of an ownership system under which the socialist public ownership system dominates, non-public ownership economy supplements, and multiple economic factors develop simultaneously for a long period of time. Our party also put forward the policy of allowing and encouraging the development of the private economy to achieve the goal of developing the socialist economy, increasing social productive forces, and creating material goods needed to enter into a high level of socialist society. Then, under this situation and condition, is it necessary to advocate "private property being sacred" to raise the enthusiasm of private entrepreneurs for investing in and managing the private economy and for serving socialist modernization? I think it is not necessary because the Constitution of China stipulates: "The state protects the ownership of lawful income, savings, housing, and other legal property of citizens"; and "the state protects the right of inheritance of citizens according to law." The temporary provisions of private enterprises further stipulates in concrete terms: "The

assets of private enterprises belong to private individuals" and the "state protects the lawful rights and interests of private enterprises." All these laws and regulations are sufficient to protect the private property of a private economy from harm. There is no need to use the stipulation of "private property being sacred" used in foreign bourgeois laws to replace the Constitution and law of our socialist country. As for the concept that only by regarding "private property as sacred can socialist society survive and progress," it is even more impossible to find out what this means.

Gao Shangquan Views Decision on Socialist Market

94CE0231A Beijing JINGJI CANKAO in Chinese
5 Dec 93 pp 1,4

[Article by Gao Shangquan (7559 1424 0356): "Guiding Principles For Economic System Reform in the 1990's; Lessons From the 'CPC Decision On Certain Problems in Establishing a Socialist Market Economic System'"]

[Text] The "CPC Decision Concerning Certain Problems In Establishing a Socialist Market Economic System," passed at the 3rd Plenum of the 14th Party Central Committee, completely reflected Comrade Deng Xiaoping's theories concerning building socialism with Chinese characteristics. It made more specific and systematic the goal of establishing a socialist market economy as proposed at the 14th Party Central Committee and is an important breakthrough and development in theory and practice; it will be the guiding principle for conducting reform of the economic system reform in the 1990's.

I. Draw Up the General Framework for Establishing a Socialist Market Economic System, Design the General Blueprint for Further Reform

1. To establish a socialist market economic system is to make the market play the fundamental role in allocating resources under the State's macroscopic regulation and control.

The basic prerequisite for establishing the socialist market economic system is to associate the market economic functions of perfecting resource allocation and improving efficiency with the goals of public ownership to safeguard social justice and promotion of getting rich together. It should reflect the general regulation of the market economy, learning from and absorbing the successful experiences of foreign countries, as well as reflecting the essential characteristics of the socialist system. The general law of market economics is: All commodities and all key elements of production including land, capital, labor force, and technology should go into the market. The market operation system will play a basic function in allocation; property rights and relationships must be clear, profit substances pluralized, and enterprises become independent legal persons

and chief entities in market competition with self-operation, self-responsibility for profits and losses, self-development, and self-restriction. The government will carry out indirect regulation and control through economic means, to foster a good market situation, protect society's overall profits, and accomplish the public's goals. Economic relationships must be legalized, enterprises must operate in accordance with the law, and the government administer by law.

For initial establishment of the socialist market economy system by the end of the century, there is much work which must be done, so we must grasp the key points, and first of all establish the basic framework of the new system.

2. The basic framework of the socialist market economic system is composed of five links.

A. Establish a modern enterprise system which is suitable to the market economy, forming a vigorous microscopic base in which public ownership is the main body, while multiple economic compositions develop in the interim.

B. Establish a national unified market system, to achieve close associations between rural and urban markets, connections between the domestic and international markets, and promote perfected allocation of resources.

C. Establish a perfect macroscopic regulation and control system which mainly uses indirect means, shifting the government's role of administering the economy, and guaranteeing healthy operation of the domestic economy.

D. Establish an income distribution system in which distribution by work is the dominant factor, giving priority to efficiency, giving consideration to fairness, encouraging part of our regions and part of our people to get rich first, going the way of getting rich together.

E. Establish a multi-level social insurance system, providing social insurance for urban and rural residents which is appropriate to China's situation, to promote economic and social stability.

Just as it is stated in the "Decision": "These principle links are organic main entities which are associated and mutually restrictive, and compose the basic framework of the socialist market economic system." Meanwhile, it also clarifies the basic special features of the socialist market economy. We must accelerate reform measures around these key links, to establish the basic framework of the socialist market economy.

3. Correctly learn and grasp the key and mutual links for establishing the socialist market economic system framework.

The basic and key link in establishing the socialist market economic system and a modern enterprise system appropriate to what the market requires is clarification of property rights and relationships. This is

because the enterprise is the main entity of the market, and the modern enterprise system is the basic system in the socialist market economy system. Without a modern enterprise system, the socialist market economy would be a river without water, a tree without roots. Because the enterprise is an economic entity which is composed of the various key elements of production, key elements of the market, the whole market system including labor force, capital, and technology are prerequisites to establishing a modern enterprise system as well as the certain result of modern enterprise economic operation. Among these key elements of production, the person is the most vigorous element. To be complete in establishing a modern enterprise system, in order to arouse and bring into full play the enthusiasm, initiative, and creativity of labor, we must establish a reasonable income distribution system, smash egalitarianism, and implement earning more for more work. This will reflect the principle of giving priority to efficiency, giving consideration to fairness, and forming the market economy's system of operating by motivation. Only in this way can we improve labor productivity and economic efficiency.

We should realize that in the process of developing the socialist market economy, the market is not a universal: Establishment of a perfect and efficient macroscopic economic regulation and control and a social insurance system cannot be replaced by enterprise action and the market operation system, because enterprises and the market do not have, indeed cannot possibly have, macroscopic regulation and control functions, or a system of social insurance. The macroscopic regulation and control system is the regulator of the socialist market economic system, while the social insurance system is the market economic system's safety valve and stabilizer. It is only by establishing a perfect macroscopic regulation and control system in which indirect measures are the dominant factor, and by establishing a multilevel social insurance system, can we ensure that the socialist market economy will be systematic, complete and unified. By having this type of new system, we can enhance economic and social stability, and ensure that the domestic economy will operate regularly and healthily.

II. Give the Highest Priority To Arranging Property Rights and Relationships, and To Establishing Modern Enterprises; Clearly Set Forth the Concept of "Legal Person Property Rights"

1. The market conditions required for state-owned enterprises to achieve self-operation, and self-responsibility for profits and losses.

In 1984, in the "CPC Decisions On Economic System Reform" it was made clear that state-owned enterprises should achieve self-operation and take responsibility for their own profits and losses, but so far this goal has not been accomplished, because two difficult points have yet to be resolved: One is that the market conditions required for enterprise self-operation have not formed, and the second is that we haven't found the specific pattern for enterprises to accomplish responsibility for

their own profits and losses, so we haven't resolved the theoretical and practical problems concerned in enterprises' property rights.

Enterprises' self-operation requires a market condition, and establishment of that condition is the result of a series of reforms which support the system. To establish a commodity market, we must reform the planning system, the circulation system, and the price management system. Going a step further, a commodity market alone is not sufficient for enterprise self-operation; there must also be key element markets as well, chief of which are the capital market, the labor force market, and the technology market. This in turn calls for reform of the investment system, the financial system, and the labor and personnel matters system, as well as a social insurance system.

According to a survey by a relevant department, there are several basic special features in China's market conditions, as follow:

First, there is a very great difference in degree of development between the commodity market and the key element markets. The commodity market developed more rapidly, the key element markets more slowly.

Second, there is a considerable difference in market conditions confronting large, medium, and small enterprises. Small enterprises face better market conditions, so have greater rights to self-operation; the market conditions are worse for large and medium enterprises, especially backbone enterprises which produce important products, so they have a lesser degree of self-operation.

Third, there are sizable differences in the market conditions faced by enterprises' from different industries. Enterprises in industries which produce investment type products and manufacture consumer products enjoy better market conditions, since they have greater rights to self-operation; enterprises in sectors which produce raw materials and basic industries face less favorable market conditions, having fewer self-operation rights.

Fourth, there are major differences in market conditions across different regions. Markets in special economic zones and development areas developed better than did markets in other areas.

From the four differences listed above, we can see the achievements of past reform as well as the backward links in the reform process; we can confirm that there is a practical base for continuing to go forward as well as confirm the key points of further reform. On this basis, we can determine the channels by which to exchange the enterprise operation system.

2. Reform of state-owned enterprises demands a breakthrough in the theory of property rights.

Regardless of whether profit or loss, both are embodied in enterprise property rights. Enterprises must achieve self-responsibility for profits and losses, must become

the main body of their property rights; if the property of state-owned enterprises comes into the category of public ownership, how can enterprises become the main body of property rights? This is the urgent problem we must resolve to realize the pattern of state-owned enterprise taking responsibility for their own profits and losses.

Theoretical circles and executive departments carried out a useful probe of enterprise property rights reform. Generally there are three ways in which it is worded: 1) Legal person property controlling rights; 2) legal person ownership; 3) legal person property rights.

Concerning enterprise legal person property controlling rights: According to the regulations of the "Enterprise Law" and "Transformation of the Public Ownership Industrial Enterprises Operating System," enterprises share ownership, using it and levying penalties in accordance with the law. Discussions have shown that many people are confused about this concept: Although the "General Regulations of Civil Law" confirmed that the right of separation was an independent property right of civil affairs, people still viewed it as an administrative right, which was an enterprise activity right not touching upon property rights and relationships. Therefore, it is difficult for enterprises to accomplish value-preservation and value-addition of state-owned capital, and self-responsibility for profits and losses.

Concerning enterprise legal person ownership: Legal person ownership, the structure which deals with shareholder rights in the legal relationship between enterprise and investor, is now the general rule of civil law and commercial law in each country. Enterprises share in legal person ownership as independent civil affairs main entities, and independently engage in legal activities, undertake legal responsibility, and can eliminate investor direct involvement in the enterprise's production and operations activities. Legal ownership is only a legal form; it cannot change the nature of the enterprise's ownership. That is determined by the characteristics of the shareholders who actually control the corporation.

Concerning enterprise legal person property rights: In this, the enterprise has independent controlling rights to property that the state has authorized the enterprise to operate and manage in accordance with law. Legal person property rights are an association of operational rights and the legal person system. Enterprise operational rights are spoken of in comparison with state ownership, setting the focal point on the relationship of property, rights and responsibilities between the enterprise and the state. Legal person property rights are spoken of in comparing the enterprise's other civil affairs rights, setting the focal point on the relationship of rights and responsibilities between the enterprise as an independent legal person and the enterprise's property. What is the difference between legal person property rights and enterprise operation rights? One is that operation does not include profit rights, while "enterprise legal person property rights" includes related content concerning

profit rights. Another difference is that after affirming the concept of enterprise legal person property rights, the state will not accept responsibility for enterprise debts. Explaining enterprise legal person property right helps to understand correctly and implement further enterprise operational rights, and helps to clarify property relationships, protect state ownership, and accomplish value-preservation and value-adding for state owned assets. So, the "Decision" used the wording of "enterprise legal person property right."

3. Establishing the modern enterprise system is the direction of state-owned enterprise reform.

What is the modern enterprise system? What are its basic special feature? According to international experience and China's practical situation, it first of all clarifies property rights relationships. When an enterprise has the legal person property right, it can become a legal person entity, assuming responsibility for civil rights and responsibilities. Second, it permits enterprises to self-operate, taking responsibility for their own profits and losses in all legal person property, paying taxes in accordance with regulations, taking responsibility for asset value-preservation and value-adding for investors. Third, investors undertake limited responsibility in the amount of assets they invest. Fourth, enterprises organize production and operation according to market demand, and in market competition, only excellent will win while the bad will fall by the wayside; there will be no indirect government intervention in enterprise operations. Fifth, it will establish a scientific enterprise organizational structure and management system, establishing a mutual encouragement and restrictive operating system among owners, operators, and employees.

The corporation system is the major legal pattern of the enterprise system under the modern market economic system. The basic special features of the enterprise legal person are: One, it has the status of an independent legal person, the same civil action abilities as a natural person, to sue and countersue; two, it takes responsibility for its own profits and losses, a company of the shareholder investment form assumes independent civil responsibility; third, it is a totally independent economic entity for taxpaying; fourth, it adopts a regulated system of cost and financial accounting.

4. The fundamental conditions for enterprises to be the main entity of market competition.

The risky and competitive special features of a main entity in market economy activities determine that for the enterprise to be the main entity of market competition it should have two fundamental conditions.

One is that enterprises determine their own activity and direction according to market demand, determining its own combination of enterprise production key elements and operations. Enterprises determine as they will what to produce, what to operate, how to conduct production and operations. The second is that enterprises can independently bear the consequences of market activity,

which is that the enterprise should become the main entity in legal property rights, having independent property rights and responsibilities.

5. The advantages and pattern of the corporation system.

In reorganizing the state-owned enterprises we can eliminate the original legal framework for public ownership enterprises. The advantages to this are:

One, the enterprise will take its own responsibility for profits and losses, getting out of the strange circle which confronts state-owned enterprise reform. State-owned enterprises are being remolded on the corporate system, in which the state, representing the public as shareholders, undertakes limited responsibility for enterprises according to the amount of its investment, and entrusts operations to directors; enterprises take responsibility for their profits and losses on the basis of legal person property right. The biggest restriction on enterprises is self-responsibility for profits and losses, this responsibility can prevent enterprises from abusing ownership, with loss of state owned capital.

Second, it helps in clarifying property rights relationships. Remolding into the corporate system requires clarification of property rights relationships between government and enterprises, confirms the government's ownership organs, and sends representatives of shareholders to attend board of directors meetings.

Third, it creates the conditions for separating enterprise from government and for enterprise self-operation. The corporate system remake requires separation of government from capital, unification of capital and enterprises, and this furnishes the preconditions for separating government from enterprises. Meanwhile, the separation of ownership rights from operating rights is assured by a clear, stable system of regulations and by the enterprises' internal organizational structure. It will provide reliable organization and system conditions for freeing enterprises from inappropriate governmental administrative interference, and will protect enterprise self-operation.

Fourth, it is only after enterprises have taken responsibility for their profits and losses that they will really be able to face the market. For public ownership enterprises, the state does indeed take joint responsibility for their profits and losses. Moreover, this is done without looking into the responsibility for profits and losses. Therefore, enterprises face more toward government rather than the market, so even should the government want to push them, they might not be able to. After enterprises assume responsibility for their own profits and losses, facing the market will become an internal requirement for an enterprise looking to survive and develop.

Fifth, the responsibility system for profits and losses by enterprise operators and employees will be better implemented, promoting enterprise efficiency and improved benefits. Because the owner goes into the enterprise, property rights restrictions will be more strict, making it

easier to confirm responsibility for profits and losses of operators and employees, establishing a more efficient system for incentives and restrictions. In addition, it will serve to increase flexibility in enterprise operations and promote fairness in competition among various kinds of enterprises.

The corporate system can take a different pattern: A small number of natural monopoly industries and public welfare industries can be remolded into state single capital corporations and multiple investment entities can be remolded into limited responsibility corporations or joint stock corporations in accordance with law. The joint stock system can better regulate the relationships between the state and enterprises, and is the efficient form suitable for development of the market economy. We must create the conditions, positively and reliably extending the range of experimental sites, regulating it and letting it develop in a healthy manner. There can be only a small number of joint stock corporations in the market. Implementation of the corporate system should stress replacing the operational system, with steady expansion via experimental sites.

III. Current Emphasis Should Be on Developing a Production Elements Market To Establish a Unified Open Market System; Markets for Labor Force and Capital Are Important Components of the Elements of Production, With New Breakthroughs and Developments, Both Theoretically and Practically

1. Current emphasis on development of a production elements market.

The "Decision" noted that "current emphasis must be on developing a production elements market." Why must this be emphasized?

The weak link in current market construction is the serious backwardness of the elements market, which does suit the needs of establishing the socialist market economic system. At present, direct financial markets occupy only about 10 percent of the gross capital used in China, with the capital market in a preliminary stage. The circulation of the labor force is still fundamentally unchanged from the pattern of the original system. The actual turnover rate of scientific and technical achievements is not very high; for example, only 5 percent of the scientific and technical achievements in the electromechanical industry received widespread popularization. Production elements bring a very low price in the market. This has become a barrier to the establishment of a national, unified, open market, a barrier to making maximum use of the market's fundamental role of resource allocation.

Bringing all production elements into the market is an essential requirement of the socialist market economic system, a vital part of establishing and perfecting the market system, as well as a key problem in perfecting resource allocation. The production element markets include those for capital, labor force, technology, and land. Without development of the element markets,

reasonable circulation of production markets would be impossible to accomplish, and it would certainly be impossible to really achieve perfected resource allocation.

2. A clear proposal for the concept of a labor force market is an important breakthrough in economic system theory and practice.

In the past, theoretical circles, and especially economic departments, always used such concepts as "labor services market", the "labor market" and "labor employment market." The "Decision," clearly proposed the concept of the "labor force market." Actually, the labor force market is one type of production element market, an important component of the market system, only when the labor force market is proposed with perfect assurance can we accelerate the establishment of the socialist market economic system.

Now that the people are the masters of the state, how can the labor force be seen as a commodity property? The chief reason such a problem exists lies in confusion over the two ideas of labor force and worker.

In fact, the labor force is not equivalent to the worker. The concepts of labor force and worker have connections as well as differences. Labor force refers to labor capability of the worker; worker refers to the main entity of labor which is the person. The workers exchange their labor abilities in the labor force market but not their persons. In the process of this exchange, the two sides negotiate supply and demand equally and make mutual choices for mutual benefits.

Workers have different levels of personal talent, so they have different levels of working ability. Ownership of the labor force lies with the main entity of labor, that is, the person, and this supplies both the possibility and the practical base for the existence and development of the labor force market. As the only active element, the labor force plays an important role in production elements. If the other production elements go into the market, with only the labor force kept out, it will be impossible to establish a unified open market system. Only when the labor forces goes into the market, and the qualifications and value of workers receive a fair evaluation, can enterprises and workers carry out two-way selection on a free will basis, and thereby promote perfected allocation of labor resources and the entire resources of society.

It is irrefutable that there actually exists a considerable amount of the labor force market in our economic life.

China has a big population, an abundant labor force resource, so the contradiction of labor supply exceeding demand will exist for a long time. According to figures supplied by relevant departments, by the year 2000 China will face the employment pressures of 320 million people, so it is urgent and essential that we speed up the creation and development of a labor force market.

At present, China's labor force is still in a stage of preliminary development. Looking at the main entity of market competition, establishment of this has been blocked in all state-owned sectors, due to the fact that the labor and personnel system has not yet implemented complete reforms. There is still basically a lack of guaranteed rights and benefits for the market main entity. Looking at the market operating system, the pricing standard for the labor force lacks unity; over quite a large area, wages reflect neither the cost of the labor force nor the labor force supply and demand situation, so the operating system for market regulation does not function. Looking at market competition order, there is a lack of essential measures to protect competition, regulate and control the market, and provide legal supervision. Looking at the market service system, the social protection system is not completely established, with a very low degree of social benefits, such as employee training, medical benefits, job-related injuries, retirement insurance, and unemployment compensation. Therefore, it is only through further reform, accelerating the creation and development of a labor force market, that we can possibly deal with the massive employment pressures in future economic development.

Affirming the concept of a labor force market will not affect the working class's master position. Admitting a labor force market does not mean that workers are a commodity. Workers have the right to exchange and retain their labor force, have the freedom to choose jobs; this merely reflects the fact that workers are masters of their own labor force, so as to accomplish equal labor and employment opportunities. Under capitalism, private ownership of the means of production brings a separation of the workers from the means of production, obliging workers to sell their labor force to become employed, so the individual ownership rights of the labor force change in nature. Under socialism, workers exchange their labor force with collective workers, and participate in democratic management, achieving true private ownership of the labor force. When we speak of the master position of the working class, we mean the whole working class, and the individual worker is not equal to the whole working class. The individual worker's exchange and retention of his own labor force doesn't mean he has lost the status of being a part of the working class.

3. Positively and reliably develop the capital market, to promote socialist modernization.

A. Capital must be converted into social wealth.

Is capital allowed to exist in the socialist market economy? This is a big and important problem which must be resolved in economic reform and development. Since the "three big remoldings" in China, the economic category of capital has almost been cancelled, replacing it with funds, viewing capital and the capital market the same as capitalist and capitalism.

in a situation where multiple economic compositions simultaneously co-exist, admitting the existence of capital is helpful to development of the domestic economy. At present, the different development speeds of the different economic components is closely relate to whether they operate according to the regulations on capital circulation. For example, some enterprises earn fake profits while actually losing, some "three forms of capital enterprises" have fake losses while actually earning profits. Privately owned enterprises seek as much depreciation as possible, while some state owned enterprises rarely mention it if they mention it at all, with the result that some state owned enterprises "rest on their laurels," their capital funds going down while their assets to liabilities ratio rises greatly, their average profit level dropping, and the capital value-addition increases slowly. This is one important reason why in recent years there has been a steady decline in that proportion of the domestic economy that is state owned.

Under capitalism, currency is converted to capital, with capitalists use this capital to occupy surplus value. Under socialism, the question is not whether to create surplus value, but who will possess the newly increased surplus value? Will it be converted to social property? Will it benefit the people and society? When we engage in the socialism market economy, capital value-addition means the expansion of owners' capital which includes, chiefly, public ownership. It is helpful in developing socialist productive forces, in increasing the comprehensive national power of socialist countries, and in improving people's living standards.

Converting national funds into national "capital" establishes the relationship between the state and enterprises according to "capital" ownership rights. This aids in separating enterprises from government, in managing enterprises well, and also helps the state strengthen macroscopic regulation and control of enterprises through the economic means of investments and loans. Enterprises engage in operational activities through the means of capital, and have to make up losses through capital; if they make profits, it will become the owner's benefits. The enterprise's purpose is to capital value-addition. The initial step in establishing a system which keeps enterprises within boundaries is to have powerful restrictions on capital. This is the only way to avoid the phenomenon of "eating up all the benefits" and an "enterprise tending to be a empty box."

Allowance for the existence of capital must create changes in the ownership pattern. As positive promotion is provided for the state ownership economy and the collective economy, there must at the same time be encouragement for development of individual, private, and foreign investment joint ventures in order to establish a pattern of taking public ownership as the dominant factor, absorbing the simultaneous development of multiple economic components. Some public ownership enterprises which took in investment from employees and collective enterprises, issued B stock and H stock, the enterprises and the legal person blended as one. This

is just as the "Decision" said, that "with property rights moving and reorganizing, more and more economic units will have mixed property ownership, and will establish new a property ownership structure." This is a development in ownership theory and practice.

Allowance for the existence of capital must create changes in the distribution system as well. The "Decision" declared: "Encourage deposits and investment by urban and rural residents, allowing production elements which are a part of individual capital to participate in distribution of profits and benefits." We must adhere to a system in which distribution according to labor is at the center, with simultaneous existence of a multiple distribution pattern. This requires that two relationship problems be handled well: One, the relationship between distribution by work and distribution by capital; and two, the relationship between state owned capital and privately owned capital. Not only should we encourage a part of the people in some areas to get rich first, but we must also try to avoid division into two opposite extremes, while we gradually accomplish getting rich together.

B. The capital market should positively and reliably develop security and stock capital.

The capital market can also be called the long term fund market, which is the market for fund debits and credits or security exchanges of medium and short term capital markets over one year. The money market can also be called the short term capital market. Since reform, there have been major changes in the domestic income distribution pattern. The proportion of resident deposits in national gross deposits has risen to its current figure of more than 70 percent from 23.55 percent in 1979. The huge amount of resident savings are largely in the form of deposits. Thus, at the same time we are stabilizing savings, we should positively and reliably develop security and stock capital. Regulate the structure of the capital market, with step by step regulation of stock market expansion. This will improve the proportion of enterprise self-owned capital, which can appropriately strengthen enterprises' ability to undertake financial regulations by the central bank. Currently, banks bear most of the debt load for state-owned enterprises, so when money is tight, there is a direct effect on enterprises' production and operational actions. Because China's state-owned enterprises do not now have a true self-restrictive operations system, in their pursuit of output and development speed, enterprises do not consider the costs of collecting capital in the market; but financial macroscopic regulation and control is direct control of credit and not indirect control of the currency supply. In this situation, it is easy to keep direct investment separate from changes in market demand, so the market's perfected resource allocation function cannot be brought into full play. We must establish a credit rating system, and regulate the issuance of stocks and securities to promote healthy development of the capital market.

IV. Macroscopic Regulation and Control Is Chiefly Through Economic Means, Bringing Into Full Play the Enthusiasms of Central Authorities and Localities

1. The socialist market economy requires a perfect macroscopic regulation and control system.

The socialist market economy system must emphasize bringing the market's basic resource allocation function into full play. But on the other hand, it must be understood that the market is not universal; it is spontaneous, blind, and sluggish, so we must strengthen macroscopic regulation and control. Establishing a macroscopic regulation and control system will compensate for the market's shortages. Therefore, the market mechanism function and macroscopic regulation and control are linked to one another and they supplement each other; each is indispensable.

The "Decision" stipulated that macroscopic regulation and control must stress "maintaining a general equilibrium in the gross economic total, to perfect the economic structure and lead to steady, rapid, and healthy development of the domestic economy while promoting comprehensive progress of society." In addition, it made it clear that "macroscopic regulation and control is chiefly by economic measures," establishing a macroscopic regulation and control system by means of further reform, without reverting to the old, planned economic system.

To establish a macroscopic system for regulation and control, it is necessary to establish a system which is both mutually supportive and mutually restrictive among plan, finance, and revenue and expenditures, to strengthen combined coordination of economic operations. A very important question is just what kind of role will the central bank play in macroscopic regulation and control. At present, the policy objectives of the central bank are not only to assume the huge burden of supporting economic growth, it is also responsible for stabilizing currency. In addition, it must always make economic development its highest priority, with an expansion tendency in currency policy, and this weakens its function of stabilizing currency. The "Decision" specified quite clearly that: "The prime objective of the central bank is to stabilize currency value, regulate the total currency supply, and maintain the international balance." Confirming the central bank's policy objectives was beneficial to stabilizing currency and controlling inflation.

2. In the near future, we must take major, important steps in revenue, finance, investment, and planning system reform.

The key points of revenue system reform are: 1) Establish a tax division system; that is, change the current local revenue contracted system into one that establishes a central tax, shared tax, and local tax on the basis of an equitable division between the central government and localities' rights; 2) reform and perfect the tax system, and spread more widely the circulation tax system in which the value-added tax is the dominant factor, on the

principle of a unified tax law, a fair tax burden, a simplified tax system, and an equitable division of power; 3) reform and regulate the double entry budget.

The focal points of financial system reform are: 1) The People's Bank of China must operate as a true central bank, regulating and controlling the currency supply primarily through economic means; that is, changing from relying chiefly on management of the scale of credit to the use of such measures as the deposit reserve rate, the central bank credit interest rate, and open market business to conduct management; 2) the current specialized banks must be converted into commercial banks; 3) we must organize policy type banks, separating policy type business and commercial type business; 4) reform the foreign exchange management system, and with the market as the foundation, establish a controlled system for a floating foreign exchange rate with a unified and standard foreign currency market.

The focal points of investment system reform are: 1) Change the main entities of investment in competitive type projects from government to enterprises, giving enterprises self-determination in policy and strategy, and gradually establishing risk responsibility for legal person investment and bank credit; 2) replace the current administrative examination and approval with a system of registering projects and putting them on file, a major and important reform in the transition from the planned economy to the market economy; 3) encourage and take in investment from every sector for the construction of fundamental projects.

The focal points of planning system reform are: 1) The plan must be based on the market, usually an oversight plan; 2) The mission of planning work is to establish a logical development strategy, achieving the purpose of regulation and control and industrial policy, with accurate economic forecasts; 3) Put macroscopic, strategic, and policy-oriented key points in prominent positions in medium and long-range planning; 4) Establish new domestic economic business accounting and a macroscopic system for economic oversight and estimates.

3. Alter the role of government by reasonably dividing the central government's rights and the economic management rights of localities.

Is it first level macroscopic regulation and control or second level macroscopic regulation and control? What we refer to as macroscopic regulation and control is regulation and control of the gross economic output. Therefore, macroscopic regulation and control rights must be concentrated in the central government; localities should not be making decisions concerning the issuance of currency, setting fundamental interest rates, and regulating and controlling major tax rates. This is the only way that we can assure a balanced gross economic output, perfect the economic structure, and establish a national, unified, open, market system. To maximize the enthusiasm of localities, the "Decision" set

essential management rights for each province, autonomous region, and municipality directly under the central government: 1) Fix regional laws and regulations, policies and plans which are in accord with the nation's laws, regulations and macroscopic policies; 2) replenish local taxes, increase local revenue, and regulate activities in these localities through local revenues and budgets; 3) fully exploit local resources, promoting economic and social development in these localities; 4) organize and construct rural and urban cooperative banks to support regional economic development.

Transforming the role of government and reforming government organs is urgently needed if we are to establish the socialist market economic system. The "Decision" set out clear regulations on the function of government economic management, that it is "chiefly, to establish and carry out macroscopic regulation and control, do a good job of constructing the infrastructure, cultivate a market system, regulate societal distribution and organize social insurance, control population growth, protect the environment, and manage state owned assets in order to accomplish the objective of developing the national economy and society. We must transform the role of government administrative departments, simplify the administrative structure, strengthen the role of social administration, and not intervene directly in the production and operational activities of enterprises.

FINANCE

Type B Stocks' Performance 'Weak'

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[Article by Chung Nai-wen (6945 0035 2429), Ch'en Yung-yen (7115 0737 3601), and Chung P'ei-ch'ing (6945 0160 0615): "With China's Stock Markets in a State of 'One Country, Five Systems,' Type B Stocks Will Have To Be Abandoned"]

[Text] As China is going to administer the future Hong Kong SAR in the form of "one country, two systems," China's current stock world has set a precedent by practicing "one country, five systems": 1) Type-A stock transactions in RMB; 2) Type-B stock trading in U.S. dollars; 3) Type-H stock trading and investment on Hong Kong's stock market in Hong Kong dollars; 4) State-stock issues; 5) Corporate-stock offerings. But as the type-B stocks supplied for transactions by foreign investors in China have a small trading volume and are inconvenient to trade, figures in Chinese securities circles have been holding recently that the type-B standing is very likely to be eliminated, to be replaced by the type-H, or even for all five types to be consolidated into one.

China's Stock Markets: "One Country, Five Systems"

While Hong Kong's stock market is repeatedly setting new records, China's Shanghai and Shenzhen stock markets are continuing to fluctuate at a low level, down nearly one-half from their peaks. And China's type-B stocks have nothing good or unusual to be reported about, performing even more weakly in Shenzhen than in Shanghai, generally reflecting even less strength.

On 18 October 1993, the Shanghai B-share index stood at 73.45, which closing price was down 24 percent from its high of 96.68 on 24 February, but up 43 percent from its low of 51.39 on 27 July. And the Shenzhen B-share index's closing price of 113.58 was down 38.75 percent from its high of 185.44 on 8 February, but up 40 percent from its low of 80.63 on 6 August.

K'uang Wei-t'ien [6782 4850 3240], managing director of the New China-Hong Kong Finance Corp Ltd and the New China-HK Financial Advice Corp Ltd, tells PAISHING, "As a commercial bank, New China-HK can concentrate its attention to China's stock markets only on A and H shares, with B shares having limited growth prospects, so that the 'one country, two systems' is quite adequate, and there is no need for 'one country, multiple systems.' It would be best to replace B shares with H shares while the B-share market has not yet grown to maturity."

Shanghai B Shares Beat Out Shenzhen B Shares

Supposing a consolidated stock system, Huang Pin-yuan [7806 2430 0337], director of the New Hungchi Investment Service Corp Ltd, holds that two conditions must be met: 1. The authorities must allow A shares to be provided for trading by foreign investors, to attract foreign investment funds. 2. The renminbi must be made freely convertible to foreign currencies, so that A and B shares can be merged. And the H shares listed in Hong Kong must have a secondary-listing status equal to that of Chinese enterprises outside of China.

B shares have never had a brisk trading volume on either the Shenzhen or Shanghai stock exchanges. As to B-share prospects in these two places, Huang Pin-yuan holds that the short-term B-share prospects differ for Shanghai and Shenzhen.

He points out that as Shenzhen has a weaker economic setting, plus mostly real estate speculation business, foreign capital is less interested. But as Shanghai has a 5- to 6-decade history of economic development, as well as a better industrial and commercial base than Shenzhen, it can attract a certain amount of foreign investment capital.

B Shares Are Only "Second-Squad"

Liu Wei-kang [0491 4850 0474], research department director of the Paota Securities Corp Ltd (Hong Kong), also says that as B shares per se have a low issue volume, an inadequate trading volume, little fundraising

capacity, and not much impact, they should be gradually eliminated and replaced in the long term.

Liu Wei-kang explains that while B shares, just like on a soccer team, originally wanted to be promoted to the "A team," they were too weak, being merely the first-kick "B squad," to be promoted to the "A team" only at the right time in the game. So B shares used Shenzhen and Shanghai as "practice fields," hoping for further development only by waiting for growth to maturity.

Liu Wei-kang holds that as 1997 approaches, the already low-impact B shares will have steadily less impact. So he believes that B shares should be gradually replaced by H shares.

Huang Pin-yuan tells PAISHING that on 18 October in Shanghai, the market value was 83 billion yuan for A shares, but 5.8 billion yuan for B shares. In Shenzhen, this was 54.7 billion yuan for A shares, but 6.95 billion yuan for B shares. This left the B-share market value temporarily one-half to one-third that of A shares.

B Shares Are Likely To Be Replaced by A and H Shares

While China's economic drive comes from its own investors, meaning that the status of A shares is most important, A shares are subject to the temporary defect of not being able to compete for foreign exchange. K'uang Wei-t'ien points out, "While Chinese A shares cannot yet compete for foreign exchange, they can use other forms, such as directly listing their companies in Hong Kong, in either A or H form. In addition to Hong Kong, they can also consider listings in London, England and New York, U.S.A."

As Hong Kong's stock market system, time lag, communications, and transportation are all fine and suited to China, Chinese stock listings should first consider Hong Kong. K'uang Wei-t'ien says, "If A shares could be listed also in Hong Kong, they would not only have a larger circulation volume, but also would be subject to easier operation. Once Hong Kong reverts to Chinese sovereignty in 1997, commercial banks should concentrate on expanding A- and H-share markets."

B Shares Should Be Eliminated While They Are Still Immature

The conversion of B shares to H shares is a general trend. K'uang Wei-t'ien states, "As Chinese B shares number only some 30+, this means that it is necessary to use a better system to handle their replacement in the current stage."

Hong Kong and Shanghai Banking Corp holdings also include the two types of "Hong Kong and Shanghai Banking Corp London-registered" shares priced in either Hong Kong dollars and British pounds, with some companies also having set the precedent of converting preferred to common stock. K'uang Wei-t'ien says, "The conversion of B to H shares is not as simple as the conversion of preferred to common stock, as China's

conditions differ somewhat from Hong Kong's. And while each company's structure and conditions also differ, meaning that listings must conform to Hong Kong standards, the listing of quality Chinese enterprises in Hong Kong is an inevitable trend."

In addition, the market-profit-rate of Chinese B shares also differs from that of A shares, with K'uang Wei-t'ien admitting that the B-share market-profit-rate does not reflect market conditions.

In the conversion of B to H shares, the prices of B shares might come under pressure. K'uang Wei-t'ien points out that "lower stock prices, as long as they are a normal market activity, would not be too great a problem."

Overseas Capital Does Not Favor B Shares

The listing of B shares is of a short-term nature, never having had much circulation volume. As to overseas investors, a larger trading volume causes sharp volatility in stock prices, meaning also taking greater risks. Due to this inherent shortcoming, B shares have never been preferred by foreigners. But Huang Pin-yuan points out that as B shares bring nice profits in Shenzhen, as well as having a lower market profit rate, it is believed that they still have certain short-term prospects. While Huang Pin-yuan predicts that achieving a uniform shareholding system cannot be accomplished in a few short months, he believes that it will certainly be resolved within a decade. And state and corporate shares will also have to be converted to A shares.

Credit Investments 'Lose Control'

94CE0077C Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 10, 1 Oct 93 pp 54-55

[Article by Wang Chin-nien (3769 6855 1628): "Credit Investments Largely Out of Control"—First paragraph is introduction.]

[Text] *In the past year, bank credit investments have lost control. Zhu Rongji recalled all loans that did not conform to regulations within a definite time limit. Actually credit that conforms to regulations also is out of control. Bank loans cannot be decided by banks. They must be in accordance with the mayor's directives. All new projects have "gravy" added. No one is responsible for repayment.*

The first of the three "draconian" measures that Zhu Rongji devised when he appeared on the scene to rectify the economy was to require all local banks to recall all loans that did not conform to regulations before 31 August. It is estimated that this involved 160 billion yuan. By the beginning of September, Zhu Rongji had extended the date for the recall of the loans to the end of this year, because only 20 percent of the loans that should have been recalled actually were recalled in August.

How has 100 billion or 200 billion been loaned out? In addition to the loans that do not conform to regulations,

there are the regulation bank loans. Why has bank credit gone out of control in the past year or so? There are a few specific facts here from which we can view the credit investment situation.

People On All Sides Contending for a Sum of Money

Since last spring and summer, localities have been contending one after the other to take on projects and economic development regions. Those who are equipped come forth as well as those who are not equipped. The banks faced with so many "hungry monks" and "so little gruel," are often in an awkward situation. Sometimes they have no choice. They can only treat everyone alike. This situation has occurred in a certain region. Three large enterprises urgently needed a large loan to replace equipment. When they suddenly heard that the bank had a sum of money, the three almost simultaneously crowded in to contend for the loan and none would relent. Finally, the bank had no choice but to give in to the quarreling and divide it equally "one bowl of gruel to a person."

Logically, whom to give loans to and whom not to give them to should be decided by the banks themselves after a detailed proof of the use to which the borrowing unit would put the loan. But this is actually very hard to do. In one area this type of incident occurred. The bank decided to give a loan to a rather efficient baby food factory, but the mayor decided to give the loan to a refrigerator factory with rather serious losses, because it was a key enterprise in the city. Ultimately, the bank could only shift the abacus beads to the refrigerator factory. A township enterprise in a certain locality, because its products were of high quality and had a good reputation and it strongly broke into the international market, earned \$2.55 million in foreign exchange annually. But because the factory's current equipment was limited, it urgently needed a sum of money to replace its equipment. If its equipment were replaced, it could more than triple its production capability and it could earn at least \$7.1 million in foreign exchange. But just because it was a "township enterprise," it ran all over and still could not borrow the money.

Much Gravy in the Budget, Black Holes Know How Much

The money is the state's and everyone spends the money. So, in the investment budget of almost every new project there is quite a bit of "gravy." Increasing the "gravy" in new projects has become a "legal" method for a great many units and regional leaders to seek state funds. "Am I not doing the unit (or region) good? In any case, I am not filling my own pockets."

City A is constructing a large luxury hotel and needs a new type of decorative material. The unit in charge of construction budgeted for 8,486 meters, but after repeated detailed calculation by technical engineers of the department concerned, it was determined that they could get by on 842 meters. The reason was quite simple.

After the fact, the leaders concerned laughed and said, "We intended to do a little something else with that bit of money."

A certain county was constructing a key middle school and budgeted several 10,000 yuan. But with careful accounting by the department in charge, no matter how many times they figured it, it was nearly 40,000 yuan. When that county's education office was asked, the head of the office boldly and self-assuredly said, "So, that was money to invite guests, send gifts, make connections, and do public relations!" Consider that this cost also must be borne by the state. The state's money is constantly sliding down innumerable "black holes" in this way.

Stop and Start Projects and Stop and Start Development Zones

The so-called stop and start projects stop and start construction. Stop and start projects also can be said to be a characteristic of China. Stated a little more clearly, it is the product of the cleverness of local leaders or unit leaders in contending with the banks.

A few years ago, quite a few of these stop and start projects were stopped. By last spring and summer, the stop and start projects were finally "successfully completed." But new stop and start projects also appeared. According to statistics from March of this year, in 1992 there were a total of 88,531 new capital construction starts by state units throughout the country, a 19 percent increase over 1991. The average planned total investment for each project is 3.38 million, a 45.7 percent increase over the previous year. Because the excessively fast growth of these new starts spurred the rapid growth in the need for investment, it caused the prices of related capital goods to continue to go up. Some exceeded market demands, but "they could prohibit them, but it was hard to stop them."

Actually, "stop and start projects" are nothing compared with the "stop and start development zones." Since last year's wave of layer after layer of development zone started, it has seriously impacted on current economic development. The greatest problem with the development zone craze is, whether they are prepared or not, everybody comes forward. The provinces come forward, the localities and cities come forward, the counties come forward, and even the townships come forward, to the point that whether or not they can "be developed," that many cannot be attended to.

Presently, there are more than 6,000 of various types of development zones throughout the country. A 300 million yuan investment is required to do the "seven connections and one leveling" on one square kilometer. Of this 300 million yuan, the state normally invests 100 million and for the remaining 200 million they must go to the bank themselves for a loan or raise the money themselves. (Actually, it is still the state's money.) Not to have 450 billion for 15,000 square kilometers of development zones throughout the country is unacceptable.

But where does the state go to find so much money? The total of more than 700 billion annual national capital construction investment is all used to make development zones, and it is done for six years. In these six years, it cannot be used for anything.

If I Cannot Pay Back, What Can They Do To Me?

"One must pay back the money that he borrows." This is justice. But today in the mainland debtors are extremely relaxed. The wife and children live in the house and use the car, the electricity, and the telephone; eat, drink, and sleep, and it has no affect—after all, it is all the state's money.

A certain steel enterprise group to put up a new steel rolling plant borrowed 30 million yuan from the bank. Because of a policy error, they did not roll a single piece of steel. When they had to pay back, they did not have a single cent. What could they do? In any case you cannot make a deduction every month from the factory head's 400 yuan salary. Ultimately, there was no way. They could only transfer the factory head to a municipal economic committee as vice chairman to act as an official in another place. As to that 30 million yuan, who knows. . . .

A certain township even exceeds this joke. The township borrowed 2 million to construct a silkworm station and a base to raise silkworms. For various reasons, the situation failed. When the loan expired and the bank came to press for repayment, the township head concerned could not be found. That afternoon a call came from the county procurator saying that the township head, carrying a bed roll, had come to "report." He claimed that if they wanted money, he did not have it and would have to give up his life. What could be done? After all you could not shoot him. That evening, the township head was let go by the county magistrate.

Specific debtors are this way. So, what about the officials who gave the approval at that time? Now it is even more difficult to find them. Why? Because they have changed office. The mayor of a certain city approved this type of loan. But over a year later, this mayor had gone to be a vice chairman in the People's Congress. There is a saying, if he is not at his post, he does not run the government. If I am not now in charge, go find the new mayor.

Whenever this time comes, it is the person in charge at the bank that has the greatest headache. When he first loaned the money the person who borrowed it bowed and scraped and wanted to call him "grandpa." Now when it is time to pay back, he becomes the "grandpa." No matter how much you run around and press him, in any case he does not have it. The person in charge at the bank jokes that he is "the grandpa turned grandson."

Experts' Suggestions on Financial Reform

94CE0135A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 35, 6 Sep 93
pp 24-25

[Article by Chin Hsuan (6855 5503): "Chinese Financial Circles Discuss Orientation of Chinese Financial System Reform and Make Concrete Suggestions"]

[Text] In China's recent increased macrocontrol, financial reform is an issue of general concern. Since we entered the summer, Chinese financial circles, led by the People's Bank of China [PBOC], have conducted widespread discussions centering on this issue and it has received serious consideration from the upper echelon of the Chinese government. It is reported that a plan for reform of the financial system is being firmed up and will be implemented next year.

Direction of Financial System Reform

In the discussions, consensus has been obtained that financial system reform should properly determine the relationship between the central government and the central bank and should properly determine the relationship between the Ministry of Finance and the banks. We should establish a commercial banking system, while accelerating the development of financial laws and regulations.

Based on the consensus discussed above, it is generally recognized that the direction of reform should be to establish a central bank that can independently implement a monetary policy; establish a separation between policy finances and commercial finances with state commercial banks as its mainstay and a financial organizational system where numerous financial organizations coexist; and establish a centralized financial market system that is strictly administered with open, orderly competition.

The PBOC as the central bank should convert from its present function to become an authoritative organ for the state to administer finances and to take control of currency issuance, basic currency income and outgo, and adjustment in the scale of credit to conduct a unified national currency policy.

One suggestion believed that the central bank should report directly to the People's Congress and break with the structure of having the central bank set up under the leadership of the State Council and change the past procedure of the central government sometimes relaxing its authority and sometimes tightening its authority. Although it is estimated that this kind of suggestion would now still be difficult to realize, clearer provisions should first be made on such issues as how the State Council directs the central bank, giving the central bank greater authority, and the relations of the central bank with various departments of the State Council. Certainly at the same time, the central bank itself should improve its ability to manage finances, especially its capability for

comprehensive macroeconomic analysis. It also should be supervised to better carry out its own functions.

If we are to establish a central bank with strong control functions, we also must have an improved currency policy system and a complete set of financial laws and regulations as a base.

As regards reforming and improving the currency policy system, it was recognized in the discussions that in formulating a currency policy three goals can be determined. The ultimate goal is to maintain a stable currency and use that to promote economic growth; the intermediate goal is to control the currency supply; and the operational goal is to regulate the ratio of bank reserves. At the same time, the clarified choices that the central bank should have regarding such currency policy tools as deposit reserve rates, rediscount interest rates, credit limits, central bank deposit interest rates, central bank loans, and central bank foreign exchange operations, and operation of the open market should be more fully utilized. Correspondingly, the central bank also should enhance its macroeconomic analysis and forecasting and establish an improved statistical survey system and currency policy advance warning system to provide a scientific basis to the formulation of currency policy.

Financial circles also are paying attention to the formulation, improvement, and enforcement of financial laws and regulations. It is reported that among the laws that they are preparing to pass next year are a Central Bank Law, a Commercial Banking Law, a Negotiable Instruments Law, and an Insurance Law. Various oversight and administrative standards and regulations also are being firmed up. In the discussions, it was believed that as to how to ensure the enforcement of financial laws, the central bank should improve its investigative and oversight forces and effectively supervise and administer banks and non-bank financial organizations.

Establish Policy Finance Organizations

In the discussions three suggestions were proposed:

The first was to establish a national long-term development credit bank, the main task of which would be long-term policy loans and using state allocated capital for equity investment in key state construction projects and exercising the functions of a holding company. It is reported that the bank could be ready to be established by the last half of this year. In the initial stage the People's Construction Bank of China would temporarily assume the task.

But on the issue of who would select what projects to invest in, there is a difference of opinion. One opinion is that the selection of investment projects would still be determined by the government planning commission. But some financial people believe that this would cause responsibilities to be unclear. If a problem came up, who would take responsibility? But this suggests that the banks also should be responsible for the selection of projects. At the same time, the point that profit taxes

should not be levied on policy banks, but it should take the form of government interest deductions also needs to be further clarified.

The second suggestion is that the current Agricultural Bank of China be converted to the Rural Policy Bank of China. In addition to treasury appropriations, its capital could mainly be raised from financial bonds issued by financial organizations. It is reported that its former tasks will be undertaken by the newly organized Chinese Agricultural Cooperative Bank.

The third suggestion is that an import-export credit bank be established. This is a policy bank that would provide credit for buying and selling imports and exports and provide credit guarantees for imports and exports. But it must be separated from the Ministry of Foreign Trade and could not engage in commercial banking.

Sound State Professional Financial Organizations

In the discussions it was suggested that after policy financial tasks are divided, the Industry and Commerce Bank of China and the Bank of China again be converted to state commercial banks and operated in accordance with modern commercial bank operating mechanisms, while coming under the supervision of the central bank. This demands that these banks establish new mechanisms, engage in autonomous operations, take responsibility for their own profits and losses, seek their own balancing funds, take responsibility for operating risks, have their own self-restraint mechanisms, and seek their own development opportunities and levels of development. But the key to this reform is the need to resolve the issue of property rights.

At the same time, such current commercial banks as the Jiaotong, Zhongxin Shiye, Guangda, Huaxia, Zhaoshang, Fujian Xingye, Guangdong Development, Shenzhen Development, and Pudong Development must be further developed.

It also was recognized in the discussions that when conditions are ripe, we also should gradually develop a new group of commercial banks. But it should be emphasized that commercial banks themselves are only short-term currency markets and the main object of their services are industry and commerce and they cannot rush into the investment market. Otherwise it could be chaotic. The present tendency of some commercial banks to convert to a pattern approximating professional banks should be corrected.

It was affirmed in the discussions that commercial banks are a product of reform, that their operations suit the demands of the market economy, and that they make a contribution to economic development. It is just that their own mechanisms still are not sufficiently perfected and they are limited in several respects, affecting their further development. So, not only must we have a correct understanding of commercial banks, but we also should give them a great deal of support and provide them with the opportunities and the environment for

fair competition. And in constantly perfecting themselves, commercial banks should strive to gradually link up their internal system and business operations with international practice.

How To Establish a Strictly Administered Centralized Financial Market With Open and Orderly Competition

The suggestions in this aspect of the discussions can generally be summarized as:

1. Increase control of the currency market and sever the direct connection between the currency market and the capital market so that the currency market can become a currency policy tool for the central bank to use and the main place for the adjustment of the base currency and the money supply.
2. Reasonably resolve the issue of the relationship among savings deposit interest, loan interest, and interest on negotiable securities and gradually form an interest system with central bank interest as the base.
3. Increase supervision of financial activities among financial organizations.
4. Gradually improve the state bond market and the stock market.

Some people in financial circles believe that the present development of China's financial market mechanisms is still very weak and some are still shrinking. Reform should be increased and limitations reduced to help the financial market to develop and enliven finances.

As regards marketization of foreign exchange controls, it was proposed in the discussions that a national network with a unified price and a foreign exchange adjustment market for centralized exchange be established. Later when conditions are ripe, the Bank of China, the Chinese Industry and Commerce Bank, and Jiaotong Bank, already converted to commercial banks, would be permitted to engage in foreign exchange market business for themselves and as agents.

As to how to further develop non-bank financial organizations, it was proposed in the discussions that with clear-cut requirements regarding the funds and administrative personnel and the scope of the business of various types of non-bank financial organizations, and with strict approval and control, various types of financial organizations such as professional insurance companies and insurance funds, securities companies, trust investment companies, financial leasing companies, and enterprise group finance companies could be developed as appropriate. Branches could be formed in the insurance business, the securities business, the trust business, and the banking business.

The continued introduction of foreign investment financial organizations and the establishment of joint venture financial organizations also were talked about in the discussions, along with other issues related to reform of the Chinese financial system.

In the discussions, quite a few people brought up that reform of the Chinese financial system should begin from reality. The current situation is that the Chinese economy is becoming more marketized every day, the prices of productive elements are generally freed up, and enterprises are beginning to enter the market. With this background, reform of the financial system cannot simply stop at tightening or loosening authority, nor can it stop at some temporary measures of the current rectification of the financial order that only cope with the symptoms. We should pay attention to eliminating the influences of the planned economy and achieving radical changes in the financial system. Certainly financial reform cannot be separated from improving the entire economic environment. So, it should be a part of a series of reforms, including that of the public finance system, and we need to have sound laws and regulations to set standards for our conduct and comprehensive oversight mechanisms (some have proposed the establishment of a bank oversight system). In the discussions, it also was proposed that in reform of the financial system sufficient consideration be given to the degree of openness of finances and their tie in with international finances. Shanghai especially should be established as a financial center. Without some special policies, it would be difficult to accomplish this. Some people also pointed out that in reform of the financial system, we should give serious consideration to cultivating talent and developing modern methods.

Serious Corruption in Financial Institutions

94CE0118A Hong Kong CHING PAO [THE MIRROR]
in Chinese No 10, 5 Oct 93 pp 44-46

[Article by Wei Chang-yao (7279 4545 1031): "Fierce Jaws of the Mainland's 'Silver Dragon'"]

[Text] Anti-corruption departments on the Chinese mainland are facing a rigorous new situation. It is only by starting from a study of the system, rules, policies, regulations, and safeguards that we can acquire a deep knowledge of the causes of corruption and perfect these things through deeper reform; it is only in this way that we can accomplish dealing with both the objective and its causes, implement comprehensive administration, and fill in all the loopholes. There is no other way out.

"Financial Border" Existed Early On

The rapid economic development of Mainland China has attracted the world's attention, but so has the expansion of corruption in every industry and circle. So, investigating graft and other anti-corruption work, and encouraging clear and honest administration has become a major item on the Chinese Government's agenda. The "lifeblood" of mainland economic operations, the financial industry, has over 17,000 grass-roots units, over 800,000 employees throughout urban and rural China, controlling the currency circulation business of all units on the China mainland. It is just because this industry is in such an important and special position that on 16

January 1990 Premier Li Peng issued this warning at the National Bank Presidents Conference concerning a group of cases of graft, accepting bribes, and theft which had appeared in financial circles. The Premier said that: "Information from every locality shows that money worship is growing among some cadres and employees on bank staffs... Some people inside the banks have been corrupted by money, with frequent occurrences of graft, theft, bribe-taking, and fund diversion. This kind of corruption phenomenon deserves the strong attention of leaders at every level. To push the anti-corruption struggle, they must adopt efficient measures, conduct inspections, and deal with specific cases, to expose a group of big and key cases..." This has been going on for more than three years. The presidency of the People's Bank of China was changed from Li Guixian [2621 6311 7639] to a concurrent appointment for Vice Premier Zhu Rongji; during that time, has the unhealthy tendency of "financial termites" been stopped efficiently? The answer is disappointing. Although the leaders of the Chinese Government have worried so much, issued repeated warnings at all sorts of conferences, and urged them time and again with good intentions to investigate graft and clean up corruption, still, at the National Financial Order Reorganization Conference in July of this year, it was authoritatively disclosed that the corruption phenomenon of some persons in the bank system taking advantage of the industry to embezzle public funds was still expanding, and the case of the "silver dragon" was quite prominent, leading to extreme public dissatisfaction. Therefore, high ranking leaders in China have repeatedly ordered the launching of another anti-corruption struggle in financial circles in 1993: "We must determine to give considerable attention to making major achievements," and "lead the anti-corruption struggle into a deeper level."

"Silver Dragon" Shows New Characteristics

If we say that in the earlier years the "thieves inside the banks" had grafted or taken bribes amounting for the most part to several thousand yuan, or several ten thousand yuan, while under the affects of the "gold wind" of "seeking money" by every possible means in society, it has now developed to several hundred thousand, several million, and even up to the insane degree of several ten million yuan, which shows that the corruption problem inside Mainland China's banks has indeed reached a degree more serious than ever before. A document issued jointly by the Supreme People's Procuratorate of China and The Central Discipline Inspection Committee disclosed that in the past three years, 37 new cases of graft were discovered and handled within the banking system, involving a total of 220 million yuan. For ordinary graft, bribe-taking, embezzlement of several thousands or several ten thousands, however, is flowing in an endless stream, and it is hard to count the total amount of money involved. The People's Bank of China, the Industrial and Commercial Bank, urban credit unions, rural credit unions, and insurance companies of financial units—none of these have been

involved in cases of this kind. For some "silver dragons," their "fierce mouths," which are swallowing huge sums of the nation's prosperity, tend to be bigger each passing year, and the records they have created grow more shocking year by year. In 1990 there were nine especially large cases of graft, with embezzlement of over 5 million yuan. The biggest case was the Huzhou Industrial and Commercial Bank's Fenyang graft case in Zhejiang, with graft amounting to 5 million yuan; in 1991, it rose to 12 cases, an increase of three cases over the year before. This time the person with the "fierce mouth" was Guo Tingfeng [6753 1694 1496]: In his graft case in Cangnan County Agricultural Bank in Zhejiang, the graft amounted to 14.28 million yuan. In 1992, it rose to 15 cases, an increase of three cases over the year before; this time, the "champion" was Xue Genhe [5641 2704 0735] of the Haikou Municipal Industrial and Commercial Bank, with a graft amount of 33.44 million yuan. Compared to him, criminals of the past two years suddenly look like "small wizards meeting big wizards."

The current problem is, while these especially big criminals have been discovered or dealt with, there are still a considerable number of banking corruption phenomena of wide scope which have yet to be discovered. The perpetrators continue to change their stratagems, pursuing personal gain through their authority, exchanging that authority for money, extorting money by means of their authority, falsifying records for the benefit of relatives or friends, embezzling to make themselves rich, taking sales commissions which are highly duplicitous, and engaging in corruption. Here are some examples:

First, under the rubric of invigorating the economy and supporting enterprises which invigorate capital, those who extort money have developed from operating underground to semi-overt. Many mainland enterprises lack capital and have to pay "labor fees" in the thousands, even tens of thousands of yuan when banks conduct "inquiries"; this is then remitted into the small treasuries of bank units, and is then distributed underground under a collective title. In this way, time and time again, units and their employees are tempted. A lot of "first to be rich" employees of banks made more than 1,000 yuan a month from various sources of income. No wonder a bank cadre told a good friend privately that he "only need use a little authority, and we needn't worry about lack of money."

Second, if benefits are not offered to those who want to trade their authority for money, then they won't do business with you. As a monopoly financial trader, such matters as fixing project capital, giving loans, fund raising, collecting and distributing foreign exchange, allocating circulating money, issuing securities to the market, and discounting are all inside its business scope. Since these units alone offer these services, and no other agency, so they are sought out by everyone. They charge for approving a document, and take "labor fees" sales commissions for a signature, giving "information," and stamping documents. If you do not give some side

benefits to bank representatives, even though your business is completely legal and your reasons are abundant, it is still hard to pass. So, exchange of authority for money has continued to rise in recent years. It has risen from asking for dishes or sending cigarettes to accepting valuable securities and financial gift cards, and has now risen to take thousands and tens of thousands in cash. There is a great deal of anger in enterprise circles, but they find it difficult to speak out.

Third, the covert occupations of extortion and blackmail. With the development of the mainland economy in recent years, there has been an expanded demand for capital requirement from all sides, with a growing tendency to ask for credit loans, short term rebate loans, and fund raising in which banks serve as representatives. Once an enterprise is able to get an amount of money, the banks then demand one-thousandth of the amount in cash as a "service fee," which actually is a type of disguised confiscation, with the excuse for collecting it as so-called bank employee welfare. The mass of the people are strongly dissatisfied with this kind of extortion activity.

Fourth, embezzlement of public funds for use in stock, land, and real estate speculation. This is the most outstanding phenomenon taking place in "trust investment corporations" and "security services corporations" which are attached to banks.

Fifth, investment in established companies, in the attempt to make money in every way possible. In recent years, there has been a "craze for engaging in business nationally" on the Chinese mainland. This has also caused confusion and disorientation among banking system cadres, who feel "they can't be rich if they don't engage in business," and it became their way to "pursue wealth." So, all over the nation, banks have gone into operating all kinds of "companies" and "centers" by using public funds; a lot of these suddenly established companies got a "lucky open." Of these people who "plunged into the sea," some are current cadres, some are retired cadres, or even their relatives and children. They not only get the wages due them, which are perfectly justified, but they also obtain various "subsidies," "labor fees," or "profits," which arouses jealousy among ordinary factory employees. It is hard to determine the exact number of these front companies, or just how many bank employees are involved with them, even for high level leaders of the People's Bank of China.

"Inside Job" Thieves Tend To Be Younger

An upsetting trend is that criminals in mainland financial circles tend to be younger. In the last five years, the mainland bank business has developed rapidly, absorbing many young workers who usually come to the bank through school allocation or by social employment, filling their retired parents' positions. They have not been subjected to strict examination, training, or intensified education, so the quality of their business and their work ethic is not satisfactory. The rapid development of

domestic and overseas financial business put some of them in certain leadership positions early, while some of them never worked as leaders before, and now undertake independent work assignments in a particular department. In addition, although they lack social experience and a work ethic, they deal with money every day, just at the time "money worship" is popular on the Chinese mainland. They always want to "be wealthy first of all." It can be said that the greedy desire for and pursuit of money are the most fundamental roots of increased instances of corruption among young criminals in banks. Among the 37 especially large cases mentioned above, over four-fifths involved people less than 35 years old. The youngest one was surnamed Jia [6328], a cashier at the International Trade Agency of the Shenzhen Construction Bank, who when only 17 years old grafted a total of more than US\$27,000, HK\$1.07 million, and over 400,000 yuan. After the crime was discovered, the criminal fled with this huge amount of money, and so far is still at large. A cashier named Wu [0702], of the Rongqi Agency of the Bank of China in Suide, Guangdong, only 26 years old, at one time or another within a 40 day period stole over 500,000 yuan RMB and HK\$570,000, all of which went for gambling and leading a life of debauchery. He was deserving of the term "big termite."

Weak Laws and Regulations

Financial work is done by accepting deposits, extending credit, and settling accounts; it does these things by means of currency, account matters, and documents. What is involved are such forms of hard currency as currency, gold, and foreign exchange. It is therefore extremely important to establish perfect laws and regulations, efficient administrative rules, and a strong system of administration. What upsets people is that in the mainland banking system, which should be very strictly managed, such phenomena as rules violations, ignoring instances of these violations, lax management, and weak supervision are common occurrences, shortcomings which can be exploited in many places. An example is an accountant named Xue [5641] of the Dongfeng Agency of the Haikou Municipal Industrial and Commercial Bank, who took advantage of leadership trust, chaotic management in the industry, and a lack of strict rules to swallow up 250,000 yuan through three blank drafts. Initial success made him bolder, so he took advantage of his position in checking receipts, and arranged for a sealed secret escort. Over time, he stole more than 20 blank bank drafts, as well as the associated bank seal which was kept by a colleague. He then gave these bogus bank drafts to outside criminals allied with him, to secure payments from over 20 banks in more than 10 provinces and municipalities, ultimately grafting funds totalling 33.44 million yuan. A cashier named Gu [7357] was Section Chief of the No 1 Business Department of the Fuyang branch of the Anhui Industrial and Commercial Bank, who shared the privilege of entering and exiting the treasury house at will; even the rule "two people must be in charge of the treasury house," usually

absolute, was no restriction on him. After he acquired the bad habit of gambling, he began thinking about the treasury house and embezzled 7.70 million yuan. After the crime was discovered, he said, very upset, "If the bank management were a bit more strict, I couldn't have pulled it off so smoothly." So, we can tell what degree of laxity exists in the mainland bank management and supervision system.

Corruption Developed in Relationship Network

Although there has been definite reform of the banking personnel system on the mainland in recent years, and there has been a start on publishing invitations for jobs; still, director-level positions at the provincial, municipal, and county level are still assigned by higher level authorities. Many people have done everything they can to remain in this "land of wealth" after becoming financial officers, installing their children and good friends in banking positions. Even if they have received a public invitation for a job, some people make certain arrangements under the table to let their relatives, friends, or children of their superiors get through the financial gate smoothly. From this, they form a network of authority and money which influences mutual benefits, a network in which if one is injured, all will be injured; if one goes boom, all will, so much of the graft and corruption cannot be exposed and dealt with efficiently. When several banks in Beijing, Guangzhou, and Baotou were looking into questionable persons, they all received telephone calls on these people's behalf, hinting that there might be consequences for the banks. So, behind some cases, there is not only just the ethics problem of crime itself; the bigger problem of the relationship network of appointing people by favoritism also plays a role here, and this has developed their recklessness.

Obviously, as the mainland is in a transitional period of changing from a planned to a market economy, the supporting laws and regulations are not perfected yet, some policies are not correct, and there are many weak links and shortcomings in the work. All these things give "bank termites" a host of opportunities to exploit for their own advantages, and the anti-corruption struggle is facing a new, more serious situation. It is only by starting from a perfected system of rules, policies, laws and regulations and preventative measures that we can then learn the deep-rooted causes which produce corruption. Then we can make it perfect through deeper reform, dealing with both the cause and the effect, and reorganize comprehensively to block all loopholes. There is no alternative.

INDUSTRY

Heilongjiang Improving Declining Industry

94CE0176A Harbin HEILONGJIANG JINGJI BAO
in Chinese 6 Nov 93 p 1

[Article by Zhang Tao (1728 1718) and Wang Huaijian (3769 2037 1696): "Measures To Improve Heilongjiang's Sluggish Industrial Growth"]

[Text] Looking at Heilongjiang industries' "northeast phenomenon," the only way to vitalize them is to focus on the key links that are holding back industrial development and achieve major breakthroughs in the system.

1. Restructure the tax system to achieve major breakthroughs in expanding local financial power: Looking at the current situation, the financial system that lets the central and local governments "eat out of separate pots" no longer meets the needs of our economic development. It is imperative that we separate state and local taxes. Therefore, we must seize the opportunity before us to make a breakthrough in the financial system. The provincial party committee and provincial government must diligently review the experience and lessons in the second phase reform to substitute taxation for profit delivery and "eat out of separate pots" and, in light of Heilongjiang's own realistic situation, gather the relevant departments to conduct an in-depth investigation and study to sort out the situation and forecast the future and come up with some suggestions and a program to separate state and local taxes. They should actively report to the central authorities and, in separating state and local taxes, strive to keep the share of local financial power at or near the nation's average level, so as to lay the foundation for industrial development.

2. Further restructure the system of planning to make a breakthrough in retaining a larger percentage of the raw materials: 1) Reduce the scope of mandatory planning with regard to petroleum. First, it will be unrealistic to completely change the production pattern already set up under the planned system, but we can use 50 million tons of petroleum as base and allocate it according to state plan; the remaining portion should be kept by the localities. Second, with regard to petroleum gas, the province should be allowed to work with Daqing in its comprehensive development and utilization. Third, while Daqing expands its new oil fields, the localities should be allowed to buy shares and make investments; oil should be allocated according to the number of shares. Fourth, local governments should be allowed to invest in and exploit odd-lot oil fields around Daqing and engage in the deep-processing work. Fifth, the localities should have priority in projects complementing the initial processing of new crude produced in Daqing. 2) Reduce the scope of mandatory planning with respect to timber. The state's reduced timber index for 1992 should be used as base, and the entire contract should be taken over by the year 2000. While balancing tree-cutting and tree-planting, any out-of-plan timber should be deep-processed by the localities. 3) Continue to reduce the fixed quota procurement of grain. To reduce fixed quota procurement, the current 10.6 billion jin should be cut to 8 billion jin. The remaining portion should be deep-processed or marketed by the localities themselves. 4) Reduce the large and medium-sized enterprises' share of mandatory plans, gradually decontrol product prices, and allow the large and medium-sized enterprises to purchase raw materials in the market—letting them "buy high and sell high." Only by gradually reducing the

state's mandatory planning can a chain of upstream, midstream, and downstream products be produced to achieve breakthrough in Heilongjiang's industrial development.

3. Restructure the financial system to make a breakthrough in credit funds: Seizing the opportunity of the central bank's imposition of macro control and the separation of the state's policy-oriented banks from commercial banks at this time, we should expand the scope of local credit funds. First, taking advantage of Heilongjiang's fine industrial structure, we should strive to win credit support from the state's policy-oriented banks. Second, we can use selective products that are profitable and competitive to win commercial bank loans and help develop industries. Third, while meeting the conditions of the state's financial policy, we should actively develop local banks and raise capital on our own. Fourth, we should take advantage of our border trade and set up bank organs aboard to gather international funds.

4. Restructure the investment system and make a breakthrough in readjusting the industrial structure: To restructure the investment system, we must begin with the province's economic development and the layout of the productive forces, formulate central and local investment plans, and coordinate the development. One, while the state's investment focus is on coal, timber, and petroleum, it should invest in transportation and power supply and other basic industries, and it should also invest in light industrial products that meet the state's industrial policy requirements and are profitable. While the provincial government and governments at all levels invest in the development of light industry that makes use of agricultural products as raw materials, they should gradually shift more emphasis on light industry that utilizes non-agricultural raw materials. We must improve Heilongjiang's lopsided industrial structure and its outdated basic industry. Second, given that the central and local authorities share the same development goals, they should work in concert and cooperate with each other. For example, the province can work with Daqing to produce 800,000 tons of ethylene, which not only will facilitate the development of state-affiliated enterprises but also the creation of local-led industries. The two should make a joint investment to accelerate the realization of this project.

5. Reform the management system and make a breakthrough in giving play to the province's overall industrial productive capacity and efficiency: First, the central government should continue to decontrol enterprises, and except for the state-monopolized trades, it should hand down most enterprises to the localities and promote the cooperation between the state's large and medium-sized enterprises and local medium-sized and small enterprises, so that they no longer pursue separate development. Second, enterprises that cannot be handed down to the lower levels should work closely with local industrial enterprises. By forging lateral economic ties and through the proper circulation of factors of production,

we can help forge the internal organic link between central enterprises and local industrial enterprises and create proper division of labor and improve the province's overall industrial productive capacity and efficiency.

6. Promote reform that focuses on "enterprises' property rights system" and make a breakthrough in the operating mechanisms: Deep-seated conflicts in the industrial economy are reflected in enterprises, and the solution lies in the reform of the property rights system to resolve the issues of enterprises' ability to pursue their own development, their ability to take responsibility for their profits and losses, and their self-discipline, and in addition, we must change the operating mechanisms and push enterprises toward the market. 1) We should continue to expand the enterprise shareholding system. First, we should set up and develop a "workers' cooperative fund" to gather the enterprise workers' scattered funds and turn them into legal person shares, so that the workers can take part in the shareholding companies and help forge lateral ties. Second, shareholding companies that have already been approved should set up windows and counters to accelerate the transfer of enterprises' internal workers' shares to enliven the 1.2 billion yuan's worth of stocks in the hands of stock investors. Third, we should actively develop directional capital-raising companies to absorb corporate funds and entice enterprise workers to buy shares. Funds should be spent on expanded reproduction. Fourth, we should help enterprise be better prepared when listing their stocks in the market and help more enterprises list their securities. Fifth, we should continue to convert some industrial enterprises to the shareholding system and accelerate enterprises' technological transformation. Sixth, all newly undertaking industrial projects should generally be converted to the shareholding system. 2) We should give more weight and add more depth to state-owned, civilian-run operations. Most medium-sized and small state-owned enterprises should become market-oriented through one of the following ways: Convert to the shareholding system and sold by the share or as a whole, broken up and managed as separate entities, leased out, operate as "one enterprise under multiple systems," declare bankruptcy, merge, or form alliances and so on. 3) We should put enterprises in the property rights exchange markets and let the superior eliminate the inferior companies. We should accelerate the promotion of free circulation and optimal combination of key factors of production. While continuing to set up markets for capital goods, personnel, labor and services, technologies, and information, we should accelerate the improvement of the province-wide market for exchange of property rights and management rights. Enterprises that are chronically losing money should be publicly auctioned off, merged, leased out, or contracted out. Through enterprise reform that focuses on property rights, we can push enterprises toward the market, radically change their management mechanisms, and increase their ability to compete.

SMALL-SCALE ENTERPRISES

Success, Problems of Anhui Private Economy

94CE0201A Hefei ANHUI RIBAO in Chinese 7 Nov 93
p 3

[Article by Ge Shiping (2047 0013 1627), Deputy Director of Provincial Bureau of Industry and Commerce: "Anhui's Individual, Private Economic Sector Must Leap Forward Once Again"]

[Text] Since the beginning of 1993, an unprecedentedly good situation prevails in the development of individual and private economic sector in Anhui. As of the end of August this year, the number of rural and urban individual commercial and industrial establishments reached 706,000 in the province with 1.21 million employees, marking increases of 26 percent and 32 percent respectively over the same period in 1992. The number of registered private enterprises in Anhui reached 3,995 with 50,000 employees, marking increases of 79.8 percent and 63.9 percent respectively over the same period at the end of 1992. The rank of the number of individual industrial and commercial establishments and private enterprises in the country also rises from the ninth and 18th at the end of 1992 to the eighth and the 17th, while the rates of growth rank second and third respectively. However, Anhui still lags far behind the coastal areas in individual and private economy. First the number of individual and private-owned establishments is far less, and the per-capita output value is much smaller. Only 2.08 percent of the population in the province are working for the individual and private economic sector. Second the overall scale of the individual and private economic sector is small, and it is not so strong in strength. Third the development of this economic sector is not well balanced. There are not enough business establishments in production and processing, while the development is not so fast in rural and remote areas. Therefore, Anhui must energetically develop its individual and private economic sector and turn it into a major pillar of Anhui's economy.

I. It is necessary to correctly understand the important role of the individual and private economic sector in social and economic life and increase the sense of urgency in developing it. In recent years, the individual and private economic sector has played an ever-increasing important role in Anhui's political, economic and social life. It is manifested in the following aspects:

A. It has developed the productive forces in society. According to statistics, the total output value of all the individual industrial and commercial establishments in Anhui totalled 2.78 billion yuan in 1992. About 70 percent of industrial and commercial establishments participated in the 4,126 trade fairs and markets with their volume of business transactions making up 85 percent of the total volume of business in the province.

In addition, about 600,000 people travelled a long distance in doing businesses. Facts prove that the individual and private economic sector is a significant force that should not be neglected and a sector which has plenty of room for improvement in the development of the productive forces.

B. It has successfully made explorations to change the system of planned economy to one of market economy. The individual and private economic sector has withstood the test of the law of competition in market economy such as the law of value and the law between supply and demand, and shown its abilities to compete with others in the market and its flexibility in business management. This has played a significant role in helping enterprises change the way they operate and reforming the socialist market economy system.

C. It has helped readjust the rural industrial structure. In 1992, the number of industrial and commercial establishments in Anhui's rural areas totalled 451,000 with a total employment of 774,000 people, accounting for 65.2 percent and 65.4 percent of the total number of establishments and employees in the province. The development of the individual and private economic sector in Anhui's rural areas has changed the unitary industrial structure and quickened the pace in shifting the rural labor force, in spreading the concept of commodity economy among the peasants and in building small towns and cities in the countryside.

D. It has promoted social stability. A large number of people awaiting jobs and surplus labor forces in urban and rural areas work for the individual and private economic sector. This is conducive to achieving stability and unity and promoting social stability.

E. It has helped poverty-stricken areas become well-to-do. Practice proves that the development of the individual and private economic sector is an important way to shake off poverty. It may help some people to make use of local resources to develop diversified industries and become well-to-do.

F. It has helped increase the state revenue. The individual and private economic sector needs no state investments. It helps increase the state revenue. In 1992 alone, the total amount of taxes collected from individual industrial and commercial establishments and private-run enterprises totalled 506 million yuan in the province, accounting for 11.6 percent of Anhui's industrial and commercial taxes.

However, we must fully realize that right now there are some people in the society who have prejudice against the development of the individual and private economic sector. Especially the traditional system somewhat restrains the rapid development of such an economic sector in the following aspects:

1. People do not fully understand the concept in developing the individual and private economic sector. Influenced by the ideas of the traditional planned economy,

some areas and departments have not regarded the practice of allowing all economic sectors to develop side by side as a long-term project. They do not fully understand and firmly implement the policy of the party and the state in developing the individual and private economic sector. They do not treat all those who engage in individual and private businesses on an equal basis in extending loans, issuing business licenses and helping individual and self-employed businessmen look for places to run their businesses. The social environment for the development of individual and private economic sector is not so favorable.

2. The problem of "three disorders" has not been thoroughly solved. The burdens of those who engage in individual and private businesses remain heavy. According to a survey conducted by a certain city, the miscellaneous expenses an average individual establishment has to pay reached 2,000 yuan in 1992. There are more than 60 items, both legal and illegal, for unreasonable service charges in the city.

3. Fake collectives are formed by "forming chain stores." This has affected the development of individual and private economic sector. Some enterprises use preferential treatments in loans, taxation, business sites, and the use of water and electricity as a bait to lure some individual and private businessmen to become affiliated in name. This practice not only reduces the state tax revenue and harms the formation of the socialist market economy which advocates competitions on an equal basis among all economic sectors, but also prevents the individual and private economic sector from improving itself.

Therefore, we must fully realize that the factors that restrain the development of the individual and private economic sector remain. Only by fully understanding the significant role of the individual and private economic sector in social economy and production, continuously increasing our sense of urgency and carrying out work in a down-to-earth manner, will it be possible to further speed up the development of the individual and private economic sector.

II. It is necessary to relax our policy while strengthening control in order to rapidly develop the individual and private economic sector. To develop the individual and private economic sector, we must rely on flexible environment and policy as well as effective supervision and administration. That is to say, we must adhere to the principle of attaching importance to persistently developing this economic sector while placing such development under control. Only by doing so, will it be possible to develop this economic sector healthily and steadily. The main points to achieve this goal are as follows:

A. In order to energetically develop the individual and private economic sector, we must understand fully, in an overall manner and correctly the guideline laid down by comrade Deng Xiaoping's talks which he gave during his inspection tour in South China, and firmly implement

the principle formulated in the related documents issued by the provincial CPC committee and the provincial government. All this requires us to further emancipate our thought, change our concepts, continuously adopt a series of flexible policies and vigorously support efforts in developing the individual and private economic sector. For example, we must not limit the number of employees to be hired and encourage them to become shareholders. Encouragement should also be given to running shareholding enterprises and forming shareholding enterprise groups. In the scope of business, individual and private-owned enterprises should be allowed to produce or handle commodities and means of production, of which the state has lifted its restrictions or has not explicitly forbidden any enterprise to manufacture. With regard to the registered capital, all private-owned limited-liability companies in remote poverty-stricken areas and those companies for consultation services and technical and scientific development for the production of export-oriented products should be allowed to register as long as they can raise 50 percent of their registered capital. They should be permitted to raise the remaining amount within one year. In addition, restrictions on the use of the name of the province ahead of the name of an individual and private industrial and commercial establishment should be relaxed. Only by continuously relaxing the policies, firmly protecting the legal rights and interests of the individual industrial and commercial establishments and private enterprises and whipping up their enthusiasm in carrying out production and doing business, will it be possible to develop the individual and private economic sector in Anhui.

B. In order to energetically develop the individual and private economic sector, we must continuously implement the principle of grasping both ends. On the one hand, we must deal with and prosecute, in accordance with law, those who violate laws and regulations; while on the other hand, we must severely strike at those who monopolize the market, mix the real with the fake, sell shoddy merchandise, smuggle or peddle smuggled goods or carry out other lawless activities. We must protect all fair, just, and legitimate competitions, while prohibiting illegal business activities. Only by continuously strengthening our control, will it be possible for us to maintain the normal social and economic order and promote the healthy development of the individual and private economic sector.

Sichuan's Private Economy Tax Losses Addressed

94CE0174A Chengdu SICHUAN RIBAO in Chinese
23 Oct 93 p 7

[Article by reporters Xie Zhi'an (6200 3112 1344) and Ding Daishu (0002 0108 2579): "Clear Choice for Reducing Losses of Individual Enterprise Tax Revenues: Individual Tax Revenue Avoidance Schemes and Corrective Policies"]

[Text] With the rapid expansion of the individual economy we have had on the one hand incessant growth

in individual tax resources which has created excellent conditions for the expansion of individual tax revenues. According to statistics, in 1992 the Chengdu individual economy (individual industrial and commercial households, private enterprises, market fairs) provided tax revenues of 180 million yuan, approximately 8 percent of that city's revenues. Individual tax revenues represent about 10 percent of the province's industrial-commercial tax revenues: Last year alone the province took in 820 million yuan in taxes (excluding Chongqing). On the other hand, because some of these entrepreneurs do not pay much attention to taxation, the market mechanisms are not fully developed, tax collection policies and collection methodologies are less than perfect, and because of the number and quality of our tax collectors, the phenomenon of "avoiding, cheating, minimizing and evading" taxes is commonplace among entrepreneurs, and seems to be growing as well.

What is needed is to promote the healthy growth of the individual and private economy on the one hand and on the other to reduce to the lowest level possible all losses in state tax revenues. This is presently the most prominent and most pressing problem awaiting solution in the area of individual taxation. Some days ago these reporters visited the provincial and Chengdu city tax departments and discovered that at the present time there are the following four main problems in individual enterprise taxation.

1. The collection of individual enterprise taxes is very difficult, our ability to levy and administer taxes is very weak. To avoid taxes, some individual and private enterprises use such tricks as not keeping records of income, false registration of ownership, bogus contracts, falsification of rents and leases, falsification of joint operations, and so forth. And the inadequate resources for levying and administration exacerbates the difficulty of collecting individual enterprise taxes. According to statistics, the Chengdu Tax Bureau handles taxes for some 150,000 individual enterprises, but they only have 410 tax department cadres responsible for the direct administration or the shared administration of individual enterprise taxation, so each officer administers an average of 390 enterprises. At the Hehuachi Market in Chengdu, the average tax cadre administers 427 enterprises. The uneven ideological and cultural qualifications and temporary nature of the 1,300 plus auxiliary tax officers also exerts a certain influence on the normalized development of individual enterprise taxation.

2. Some individual and private enterprises are changing into cooperative-run, state-run, or foreign-funded enterprises. In the past several years the concerned departments in this province have time and again attempted to clean up the "four false enterprises" (false cooperatives, false state run, false foreign invested, false subsidiaries) but their numbers continue to grow. In 1990 alone the Chengdu City Tax Bureau uncovered over 4,000 "four false" enterprises within the city. At present, many individual and private operators, in order to cut their taxes, are changing themselves into cooperatives, or

state-owned, or foreign-funded enterprises, and registering subsidiary ownership, thus causing severe losses in individual enterprise tax revenues. (There is also the fact that some street management offices are requiring individual enterprises to change to cooperative enterprises in order to increase their own management fee income.) Three of Chengdu's major areas—Qingnian Road, Ranfang Street, and Nanshuwa Street—have been affected by the change from individual to cooperative enterprises. In 1992 there was a decrease of 190 individual enterprises, and the tax revenue for the three districts dropped 410,000 yuan.

3. Interregional operations currently represent one of the big drains of tax revenues. Over the past several years the economic contacts and exchange of products between regions, between city and countryside, between the interior provinces and the outlying regions have become more closely linked day by day. However, the tax collection and tax administration departments of the various localities only pay attention to the end of the operation in their location; add to this all the trouble caused by regional protectionism, and a huge leak in individual and private enterprise tax revenues is created. Some individual household and privately run operations are registering as subsidiary operations under state-owned and cooperative enterprises, nominally opening offices or warehouses in Chengdu or other districts but in reality they carry out independent operational activities; some so called non-independent accounting units in reality have no accounting relationship with any parent organization; some register as branch operation subsidiaries of special economic zone companies or enterprises, but in reality neither end of the operation pays income taxes. For instance, early last year a Guangdong individual enterprise entrepreneur, nominally registered as a subsidiary joint operation of a certain Chengdu electrical equipment company, in actuality was just an individual household operation, and was responsible for some 100,000 yuan in lost tax revenue.

4. False use of an enterprise's name, operating without a license. Some individual entrepreneurs have no operating license or tax registration, falsely use the name of some state-run enterprise (that is, of some duly licensed state run enterprise, but with which it has no accounting relationship and is not a branch organ) to carry on operations and avoid taxes for long periods of time. For instance, a certain Chengdu private enterprise operator used this method to operate without a license from July 1991 to March 1992; she was investigated and punished and made to pay over 53,000 yuan in back taxes.

Experience has proven that if we want to promote the growth of the individual and private economy and also want to reduce state tax losses to the lowest level possible, then the key is the strengthening and reform of tax collection work. At the present time, the administration of individual taxation is in the form of democratic evaluation, tax bureau approval and periodic collection.

With the expansion of the market economy, this formulation no longer meets the requirements of the developing situation. A somewhat better method would be, for the individual and private enterprises, to set up accounts and establish licenses, collect taxes according to the account audits. We should strengthen the license issuing administration system, truly implement figuring taxes according to rates and collecting taxes according to the laws. At the present stage, because a lack of understanding of the idea of taxation according to law among the individual and private enterprises, plus the inadequate collection and administrative force of the tax departments, it will be difficult to render the system scientific, standardized and systematic in a short period of time. At the present stage we could implement quota-determined tax calculations, appraise and fix a base figure and then in succeeding years calculate and levy taxes according to a certain ratio, modifying treatment according to differences and changes in the different districts, different businesses, different ports and markets. Use a "give the fish plenty of water" policy to cultivate tax revenue resources. The second is that the preferential tax treatment policies enjoyed by all the economic elements of all types of ownership systems in the same region should be equitable and rational, avoiding lopsidedness of too much or too little. Thirdly, hire ample tax collection and administration personnel for handling the individual industrial-commercial households and privately run enterprises, gradually achieving a level where each official on the average handles 100 enterprises. At the same time, bolster the ranks of the auxiliary tax force, set up a full fledged network for aiding and protecting the tax workers, overcoming the abuses of taxation by whim and the seeking of personal benefit that still exists in the tax collection process.

Looking at the long term, we should take a cue from international examples, push for the modernization and socialization reforms of tax collection and administration. In this regard, the Haikou City Tax Bureau in Hainan supplied us with an experience worth examining. Their method is this: they have abolished the traditional method of a specialist tax officer being in charge of the tax collection and administration of each household and changed from administration by household to administration by category; they have changed from having the taxpayer report in to pay taxes to having the taxpayer initiating the payments, and being held responsible for the contents of her tax report. Components of the tax departments, in order to meet the requirements of specialized division of labor, have devised a administration by category method of operation, eliminating the investigation units in the sub-bureaus and having the city-level investigation unit provide uniform leadership and control. At lower levels they instituted various and numerous smaller units having investigative powers, authority to open case files, and authority to levy and accept registration fees, and so gradually moving toward specialization. The main responsibility of the tax sub-bureau is the collection of tax moneys, and tax law

propaganda work; as for enterprise tax collection, it is all done under computer control, the tax collector directly collecting taxes or carrying out taxation through some social intermediary organization acting as agent. At the same time, they have strengthened tax collection audit work, and set up tax law offices. They are gradually setting up a new tax system wherein the tax offices levy taxes by computer according to the law, the taxpayers themselves report and pay their taxes, there are social intermediary organs to act as tax agents, and the judicial organs handle tax law violation cases according to the law.

FOREIGN TRADE, INVESTMENT

Hainan Establishing Market System

94CE0188A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 44,
8 Nov 93 pp 25-27

[Article by Gan Lin (3927 7207): "Renewing Hainan's Strength: From Policy to Institutions"]

[Text] Most Extensive Preferential Policies No Guarantee of Status As Largest Special Economic Zone

Hainan, the newest province in the country, is associated with the title "China's largest special economic zone [SEZ]" by virtue of the fact that it offered the most extensive preferential policies back when the province was founded.

No doubt Hainan's preferential policies were the most attractive in the entire country, including the 15 percent low tax policy, foreign exchange retention, and the policy that allows personnel, funds, and goods to enter and leave China freely. All that had simply been unthinkable on the mainland. The policies set off a round of "Hainan fever": "100,000 qualified personnel crossed the strait and companies from all over congregated in Qiongzhou."

Successive Hainan leaders have worked hard in the past few years "implementing the policies and laying the foundation." Since 1992, however, especially after Deng Xiaoping toured the south, the Chinese economy has been on a fast track. Cities along Chang Jiang have been opened up, so have those along the border. Many of the preferential policies that Hainan was once so proud of can now be found elsewhere. The policy edge of Hainan over other places is eroding by the day.

Hainan is faced with a grim fact; no longer is it enough for it to rely on the "most generous preferential policies" to retain its position as the "largest SEZ."

From Policy Advantage to Institutional Advantage

Under these circumstances, an advantage that Hainan has always had but was not sufficiently noted in the past now looks enormously attractive, namely its institutions.

When Hainan was founded as a province, the central government made it clear that it wanted Hainan to take the lead in implementing the "small government, large society" model. Accordingly, Hainan went in for bold reform when it put together its machinery of government. Altogether 26 departments and bureaus were set up under the government protection system, administrative affairs and social service system, economic supervision and regulatory system, and consulting system. That was a reduction of 20 administrative organs from the administrative setup in the Hainan administrative region. The number of personnel also fell by 200. Compared to the province of Ningxia in the interior, which has more or less the same area as Hainan, the latter has 90 fewer administrative organs and 31 percent fewer workers. At the same time, market regulation is allowed to play the key role in Hainan's economy and no artificial restrictions are placed on the ratio of the various economic components. Fair competition is encouraged. For instance, all enterprises, whether state, collective, private, or wholly or partially foreign-owned, pay income taxes at the rate of 15 percent.

By rolling back government regulation and control, the implementation of the "small government and large society" model has freed ample room for the creation and development of enterprises, the cells of the economy. Already 30,800 companies had been created by the first half of 1990. Before it became a province, there was just one private enterprise in Hainan. By the first half of 1990, the number had increased to 1800. Statistics from the departments involved show that Hainan has more companies on a per capita basis than any other province in China. Given the emphasis on market regulation, the development of a host of markets for capital goods has been most rapid. A labor market and a skilled personnel market have taken shape. Almost 100 percent of the total labor demand is now met through market regulation. The lending and borrowing of short-term funds is no longer the only game on the funds market; instead it has been developing into a comprehensive market where bonds, notes, and foreign exchange regulation exist in balance. The state bank, foreign-funded banks, urban credit unions, as well as non-bank financial institutions have developed in a big way. Haikou is now one of the cities in the country with the highest bank concentration. In January 1990, Hainan led the nation in slashing the supply of low-priced grain by 20 percent. This one piece of reform alone enabled Hainan to reduce the supply of low-priced grain by 60 million kilograms a year and save 66.8 million yuan in government subsidies. Subsequently, Hainan became the first in the nation to totally abolish low-priced grain, thereby severing the linkage between permanent registered residency and grain and oil. Nowadays most capital goods and all articles of daily use in Hainan are market-regulated. According to a Western observer, the prices in Hainan are regulated by the market to a greater extent than those in Brazil, a free market economy.

This system has invigorated the development of Hainan like never before. According to statistics from the departments involved, in the three years since Hainan became a province, more was invested in capital construction than in the entire 40-year period following 1949. About 70 percent of these investments came from the various enterprises in society and have played a notable role in improving Hainan's investment climate. The new system has also helped Hainan tide over the difficult period with some success. As the nation entered a period of economic retrenchment and grain, steel, and coal became scarce, Hainan managed to fare quite well by putting to use its multiple channels as a large society with small government, its diverse sources of funds, and its strong adaptability. By creating ample room for the unhindered growth of enterprises and individuals, Hainan has made possible the emergence of a number of outstanding enterprises and capable individuals, including large-scale shareholding companies with hundreds of millions of yuan in capital. One example is the Hainan New Energy Co. Ltd. Starting out with just 500,000 yuan in capital, it has been developing by leaps and bounds, buying up state shares and social shares and becoming the first private shareholding enterprise in China to reorganize itself through share standardization.

The magical hand of the market has also guided the leaders of Hainan to make wise policies. Soon after it became a province, Hainan did consider emulating the Zhu Jiang delta and achieving economic take-off by going all out to attract foreign capital and develop the three kinds of enterprises either wholly or partially foreign-funded. Of the four major sectors, tourism came in last, after industry, trade, and agriculture. What was unexpected was the upsurge in social investment in tourism, despite minimal government inputs in that sector, in response to the fact that Hainan boasts the most beautiful tropical seascape in the nation and is largely free from pollution. The payoffs took everybody by surprise. By April last year, that is, four years after Hainan achieved provincial status, 4.5 million tourists, both Chinese and foreign, had visited the province, including 774,000 from overseas, generating \$140 million in foreign exchange. In both the amount of foreign exchange generated and the growth rate, tourism outperformed the three kinds of enterprises either wholly or partially foreign-funded.

While still in the experimental stage, the new market economy, bursting with life, further opened the eyes of the decision-making echelon in Hainan to the possibility of and need for renewing its strength. After the 14th CPC National Congress unequivocally set the goal of establishing a new market economy, in particular, they realized that now is the time to make Hainan live up to its name as China's largest SEZ.

Reforms in Hainan: Tough Choices But Revenue-Boosters

Hainan has successively unveiled nine pieces of reform since the beginning of this year. As these are all major

reforms, their introduction was immediately greeted immediately with strong reactions at home and abroad.

1. In project registration, a direct registration system has replaced the traditional project examination-and-approval system. Under China's traditional industrial and commercial registration system, a project must first obtain permission before it could proceed with registration. In advanced countries, in contrast, it is just the opposite. You must first register the company as a legal person and then apply to have the project approved. The most essential characteristic of the new enterprise registration system is that it adopts the direct registration system commonly in use in the world to facilitate enterprise formation as much as possible: 1) 24 kinds of enterprises, including financial and insurance institutions, must still go through the examination-and-approval process in accordance with the appropriate state regulations. All other enterprises, however, can directly register with the industry and commerce administrative bureau, bypassing the department in charge. 2) The paperwork involved has been cut drastically. Nowadays two sets of documents are required, instead of the traditional nine. It used to take several months to go through the process. Today it takes just seven days. 3) State enterprises, collective enterprises, private enterprises, and foreign-funded enterprises are put on a level playing field and treated similarly. In effect Hainan has become the place in China where enterprise registration is at its simplest.

2. Enterprises within the budget have been abolished. No longer are enterprises that are mismanaged and have been losing money for a long period of time being subsidized. They are allowed to go bankrupt or be merged or acquired as the case may be.

3. Land is allowed to change hands through open bidding and auction. To begin with, Hainan did a good job in land value assessment and came up with proper base prices so that different kinds of land parcels are priced differently and industrial land remains low-cost. The next step is to replace the renting system with a bidding and auction system.

4. Export quotas are allocated through bidding.

5. Factory directors and managers are recruited openly.

6. Hainan has abolished the tax levy system, first trying it out in Haikou. The special tax commissioner system, in effect for decades, was abolished in favor of modern computerized collection. A tax court was also set up to handle cases of tax cheating and tax evasion in accordance with the law.

7. The shareholding system has come to the infrastructural sector. The myth that only the state can take on infrastructural projects because of the size of the investment required and the long turnover period has been exploded. Society is given a free hand to raise funds to develop the infrastructure.

8. State enterprises are encouraged to adopt the shareholding system. State-enterprise legal persons are encouraged to own a piece of one another by buying one another's shares. This is one way to stimulate the flow of capital among such enterprises.

9. Planning work is no longer "cage" management but track management. Provided something is in the right direction and is in line with the industrial policy, people should be given a free hand to do it.

Building the Market-Economy "Iron Triangle"

The reforms mentioned above are major revenue-boosters, as demonstrated by a wealth of data:

The drive now under way to reduce the money supply and tighten credit has slowed development in some areas, including the coastal region. Yet the momentum in Hainan to import from abroad and develop cooperative ties with the interior has not abated. During the months of April and May, just as Hainan introduced a new enterprise registration system, over 5,000 enterprises were registered in the province with combined registered funds amounting to 20 billion yuan. If all enterprises come up with 25 percent of their funds within one month as required under the regulations, there will be an infusion of at least 5 billion yuan into Hainan. Between January and August, the province approved over 2,000 foreign-funded enterprises with a total contractual investment of \$4 billion, up 160 percent and 200 percent, respectively, over the same period last year.

On 15 May, the Haikou municipal government put a total of 40 acres of land in the financial and commercial district along the waterfront on the block. Dozens of companies took part in the open bidding. In the end there were two successful bidders, who paid 4.9 million yuan and 6.8 million yuan per acre respectively, enriching the municipal coffers by 243 million yuan. There is an interesting contrast here. In the past five years the city sold 20,000 acres of land but netted just 997 million yuan from the transactions.

Between January and July this year, the province of Hainan collected over 1.5 billion yuan in revenue, more than doubling that for the corresponding period in 1992. During the same January to July period, the city of Haikou collected 840 million yuan in revenue, a gain of 118 percent over the same period a year ago.

It should be pointed out that revenue-boosting reform measures were not something that came about overnight. Consideration had been given to them and the appropriate documents prepared soon after the province was created. The proposal of allocating export quotas by bidding, for example, was put forward back in April 1988 and the necessary regulations were issued in August of the same year. It was made much of in the official documents of the first provincial party congress held in September.

The actual implementation has been much more difficult. One reason is the emphasis a few years ago on Hainan's policy advantage and the neglect of institutional advantage. Another crucial factor is that these reforms have been resisted by forces inside the government, by vested interests that have profited handsomely from illegitimate competition. Broadly speaking, the experiment to set up a new market economy in Hainan in the past few years can be divided into two stages. Before this year, Hainan concentrated on nurturing a variety of markets for capital goods and worked hard to make the market the principal regulator of economic operations. At the same time, it hammered out the basic framework of a "small government and large society" model. Since the beginning of this year, the province has graduated from the kind of reform that is concerned mainly with quantitative indicators—small government, large society—to a concerted effort to transform government functions and build up the capacity of society for self-rule and development. The implementation of the enterprise registration system, for example, is an indication of the effort to remove government from administrative affairs it should not and cannot handle and truly return enterprises to the people. Introducing the shareholding system to infrastructural build-up and encouraging state enterprises to adopt the shareholding system are precisely the very things that would create an even more favorable climate for the all-out drive by society to develop the economy. Meanwhile, a major effort has been under way to create a level playing field for enterprises in all economies. There is absolutely no doubt that abolishing enterprises within the budget effectively weans state enterprises from the privilege of depending on the state and putting them on a level playing field with enterprises from other economies. As for the use of public bidding in the allocation of export quotas and the transfer of land, it closes the "door of convenience" for "special people" who only know how to pull strings instead of using their own skills.

In reality Hainan's revenue-boosting reforms are very tough reforms. They constitute a high-level decisive battle in the campaign to create a new market economy. Look closely at countries around the world with a successful market economy and you can readily discover that the market economy never exists in isolation. Most of us realize that economic operations depend on market regulation. That aside, there are two other things which are absolutely indispensable. One, small government and large society. Two, fair competition among all economies. These two things constitute the "iron triangle" of a market economy. Remove any one of them and the other two will not be able to really survive.

After waging the tough battle, Hainan has basically created an iron triangle for its market economy. When it comes to the creation of a new market economy, Hainan no doubt has placed itself at the forefront of the nation. Meanwhile, the largest SEZ, which used to pride itself on its "most extensive preferential policies," has sought to replace its old advantage with its institutional strength.

The message to the world is in China the era of using preferential policies to affirm the extent of China's openness is over. Today, the race to come up with the most preferential treatment is giving way to a contest to see whose reform is better. Whoever does the best job in putting together a new market economy is driving the fastest train.

POPULATION

Market Population Development Theory Analyzed

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[Article by Wu Cangping (6762 3318 5493), member of the Standing Committee of the Chinese People's Political Consultative Conference and professor at the Chinese People's University: "Theoretical Population Research Must Answer New Questions as They Are Posed by the New Situation"]

[Excerpts] Since control of population growth was first proposed 20 years ago, the planned economy had all along been its objective foundation. It was believed that as the economy was planned, population growth had also to be planned. In this way it had been a matter of course to make control of population growth part of all plans for the national economy and for social development. The report of the party given at its 14th National Congress then declared: "Purpose of the reform of China's economic structure is achievement of a system of socialist market economy." This compelled people to make a new appraisal of the relationship between control of population growth and planned economy. Family planning has been one of China's fundamental policies, its main purpose being the control of population growth. What, then, should be its objective foundation? To this question, population theory must provide the answer.

According to the epistemology of Marxism, existence determines consciousness. China's national condition is objective existence; it is primary. Economic planning and population control policies as well as all other planning are things within the sphere of consciousness; they are secondary. It is understandable that planned economy demands planning of the labor force; however, planned economy per se cannot by itself put forward the demand for population control. Only on the foundation of a thorough knowledge of national conditions is it possible for a people to determine its population policy, and, furthermore, possible to set forth the specific population targets for a year (or five or 10 years).

National conditions are the result of the objective natural conditions and of the activities of our predecessors; our present generation has no other choice in this matter; we just have to take this state of affairs as starting point in our creation of new history. Decisions can only be accurate if they are based on the foundation of an accurate knowledge of the national conditions. Family planning and control of population growth, being major

Chinese policies, must both start out from China's national conditions. National conditions are very broad in scope; they involve considerations of political, social, economic, cultural, and historical aspects. However, within the national conditions, the components that are most closely linked with the question whether China's population growth should be controlled are population, natural resources, environment, and the economy, and among these, again population is the most directly involved component. China is still in the initial stage of socialism, and people frequently quote Comrade Deng Xiaoping's "large country, huge population, weak foundation" to express summarily this stage of China's national condition. The fact that China has a limited area of arable land, but a huge population, especially peasants, is a fact that is hard to change. It is a characteristic circumstance that must be taken into consideration in China's modernization efforts. The objective fact of China's large population determines the necessity to control China's population growth and the protracted and arduous nature of the endeavor.

In a letter written on 9 March 1991 to the leading comrades of the National Education Committee on the topic of education on national conditions, Comrade Jiang Zemin wrote: "Its huge population is a conspicuous characteristic of China's national condition." He thereby scientifically pointed out the basic fact for China's efforts at family planning and population control. However, for a long time nobody dared to directly express this very obvious fact. The reason was, one, the deep-rooted influence of the traditional "population determinism." This so-called "population determinism" is taking the total number of the population, population density, and population growth rate as the only factors that determine the overall features and development of a society. This is of course a one-sided and erroneous attitude. It is quite a different matter from our now taking the large population as the foundation for family planning. Second, it is the effect of the following argument. It assumes that the population problem is an economic question; if the economy prospers, there is no population problem. Some even go further, there are indeed people in China and abroad who believe that China is making the population problem the scapegoat for its inability to achieve an upswing in its economy. The essence of the second argument is that it will not recognize the negative effects its huge population for the survival and development of China. Its large population is a unique characteristic of China, and one in which the various countries of the world have no actual experience. Only by starting out from China's realities can we fully grasp the situation.

Many compare China with Japan, Holland, Belgium, and especially with the "four little dragons" of Asia. They state that population density in these countries and territories is much higher than in China, they also have few natural resources, and they are still capable of rapid development and have higher living standards than China. The purpose of this argument is to show that

survival and development is unrelated to the population issue, that as soon as the economy flourishes, all problems are readily resolved. In their opinion China's problems are problems of politics, economy, and its managerial system. The point that these people do not understand is that China has a population of 1.1 billion, and that this makes it quite different from Japan, Holland, Belgium, and the "four little dragons." Survival and development in those countries depends on foreign resources and markets, but for China it is a matter of reconstructing the country through self-reliance, reliance primarily on domestic resources and markets, and regarding foreign resources and markets only as supplementary factors. Because China's population accounts for 22 percent of the world population, it can hardly rely on import and export trade, or on foreign resources and markets to solve the problem of its own survival and development.

Control of population growth has a bearing on such major issues as the right to independent existence and improvement-of-life quality for China's huge population. Speaking of the population's living conditions, China is a huge country with 9.6 million square kilometers of land, but because of its large population, the land available on a per capita basis is only one-third of the world's average. To be also considered are the high mountains, high plateaus, and many desert regions, such as the Gobi Desert, leaving only 10 percent as plains. This makes it unavoidable that a considerable portion of the population must live in areas with rather unfavorable living conditions, also in high altitudes and mountainous regions. In these areas temperatures are generally low, soil is poor, and most are arid or semi-arid regions, with scarcity of water and no transport facilities. According to the general census of 1982, 20.3 percent of China's population live in areas above 500 meters altitude, and half of these in areas of over 1,000 meters, while throughout the world only one-tenth of the population live in areas of over 400 meters elevation. Obviously, the large population and the insufficiently developed economy leaves China's population little space for survival. Without population control, it will not only be impossible to improve the subsistence conditions for a large part of China's population, but these conditions will even further deteriorate.

Again, considering, for example, eating and providing foodstuffs. China has only 7 percent of the world's arable land available to feed 22 percent of the world's population. China's territory is about equal to that of the United States, but 20 percent of land in the United States is arable, while it is only 10 percent in China, and China's population is 4.5 times that of the United States. As a result, per capita arable land in China is only one-fourth of the world average and one-ninth that of the United States. China must under no circumstances depend on foreign supplies for its grain supply, because this would be unreliable and lead to foreign political control. It could threaten the nation's sovereignty and independence. For the survival of the Chinese nation

and for the enhancement of the quality of life, China must highly cherish every inch of arable soil, must resort to intensive cultivation, to economizing in grain, and must promote its excellent tradition of building up the country through thrift and hard work; another imperative requirement for China is population control.

Control of population growth will also have a direct effect on China's continued development. Continued development is primarily economic development, social progress, raising the quality of the people, and the continued exploitation of natural resources. Effective population control has also a bearing on the right scale of available manpower and on the increase or decline of surplus manpower, on the raising of labor productivity, and on the appropriate resolution of contradictions in the social distribution. It has also a bearing on the appropriate resolution of such other contradictions as the contradiction between China's large population and the supply of and demand for commodities, between people's livelihood and state construction needs, and between the large number of its population and the need to raise population quality. In view of China's huge population, effective population control will therefore be beneficial for the resolution of all the above-mentioned contradictions and for the continued development of the country.

The possibility of building up China into a prosperous, strong, democratic, and culturally rich country, with accomplished socialist modernization, will depend to a very large extent on whether it will be possible to have the rural areas and the old liberated areas, the areas inhabited by national minorities, the border regions, and poverty regions extract themselves as quickly as possible from the state of poverty, gain prosperity, and achieve modernization of all the people living there. If population growth is controlled in the rural areas and in some backward regions, there will be hope to achieve a shift in the population toward nonagricultural pursuits and toward urbanization. However, if population is allowed to inflate in these regions, it would be idle to talk about achieving a state of modest prosperity and modernization for China. Family planning will therefore have to be a protracted endeavor.

Population growth is exercising pressure on the entire environment and on all environmental resources. Following economic development and rising living standards, per capita consumption of resources is bound to increase. The huge mass of population that there is already in China, combined with the many-times-over increase in per capita consumption of resources, will of necessity reduce the resources that will be available per person, and will even have some resources dry up. Population control and economic use of resources are by now constituting two indispensable preconditions for China's continued development.

The most convincing part in the argument that the large population has a bearing on the right to existence and

development of the Chinese population, and that population has to be controlled, is the environmental capacity for China's population (also called life-sustaining capacity). The traditional theory does not acknowledge a set environmental capacity for a population:

1) It believes that human initiative can expand what volume of population the environment can absorb; 2) it believes the environmental resources comprise many indefinite factors; 3) it believes that because human living conditions differ in a thousand ways, environmental capacity is an indeterminable factor.

However, judging by the continuity in population development and considering the present state of science, a rough approximation of environmental capacity is possible. After prolonged on-the-spot investigations and research, the Center for Research on the National Condition and the Natural Resources Investigation Contingent of the Chinese Academy of Sciences came up with the figure of 1.5 to 1.6 billion people as the highest figure that China's entire natural environment could accommodate, and that the capacity would be below 1 billion, if there were shortage of some resources. China's population, which is now 1.1 billion people, will increase by sheer inertia to at least 1.5 to 1.6 billion at its peak in the next century, according to forecasts accepted by the majority of experts. This allows the assumption that the scope of China's population will in future reach the upper limits of what resources and environment can accommodate. The argument that its huge population justifies China's control of population growth is thus being supported by the intelligence of natural scientists. The proposition that scientific and technological progress can expand the life-supporting capacity is correct, but such expansion has its limits, the more so since at present it does not yet manifest that ability.

For the last 10-odd years, theoretical base for China's family planning and population control has all along been the Marxist theory on the two kinds of production. According to this theory, the ratio between the increase of human reproduction and the increase in the reproduction of material resources is the most fundamental proportion in human affairs, as both kinds of production must be in a state of mutual congruity. Prior to reform and opening up, China's average annual rate of economic growth was around 6 percent, while average annual population growth was 2 percent, so that the ratio between the two was about 3 to 1. In certain years, economic growth rates had slowed down, while population growth rate had risen to above 2.5 percent, so that the ratio became one of 2 to 1, or even less. At that time, it was very convincing to say, based on these figures, that the two kinds of production were mutually incongruous, while family planning and control of population growth were yet very smoothly being carried out. After reform and opening up, China achieved a new and higher level of economic growth, maintaining annual averages of around 9 percent. Family planning was also very successful. During the third period of peak births, the population's birth rate and fertility rate showed a

declining tendency; the average annual rate of population growth was around 1.5 percent. At that time the ratio between the growth rates of the two kinds of production was about 6 to 1, or about double the former ratio of 3 to 1. In 1992 the situation was particularly striking. The economic growth rate was 12.8 percent, while the rate of population growth declined to 1.28 percent, so that the ratio between the two kinds of production was 10 to 1. In the face of this new situation, people can't help asking whether congruity between the two kinds of production has already been achieved, and if not, when would such indeed be achieved? On the problem of how congruity is to be computed between the two kinds of production, there has never been a clear explanation since the start of the theory, and it should now be the time to answer this question. Actual practice and the many questions and perplexities in people's perception demand that theory provide the answer, and that a scientific and convincing exposition be produced.

It seems the only feasible way, and the one that is most commonly used, is to study the proportional relationship between human reproduction and material production and to subject the growth rates and the speed in both to a comparison. However, using this method to assess whether there is congruity between the two kinds of production also has its limitations:

1) It can only reflect the speed of growth, but will not reveal the original levels; 2) It cannot reflect the present levels attained by the two; 3) It will only reflect the ultimate production figures, but cannot reflect the relationship between population and the various key elements of production (especially the various natural resources) and environmental resources. 4) It is unsuitable for cross comparisons of domestic and foreign conditions.

In my opinion, the best yardstick to check whether the two kinds of production are mutually congruous is still the per capita index.

The per capita index is the link between human reproduction and material production. As a most direct and the simplest indicator, it equitably separates product volume, gross national product, and reflects the conditions of material production (such as fixed assets, infrastructure, motive power assembly, installed capacity, etc.) according to the total population figures for the various time periods. A larger population causes the per capita index to get smaller; this, then, is the population's "denominator effect." The reason for China's low per capita index is, first of all, the backwardness of its productive forces, or, one may say, the insufficiency of this numerator, while the excessively large population and the continuous population inflation in the denominator are elements that will undoubtedly prevent the per capita index from going up for a long time. Some believe, that population is insignificant as denominator, if only the volume of the numerator is increased, that this will possibly raise the per capita index. Of course, it is correct

to pay great attention to the denominator (i.e. production volume). Developing production (increasing the denominator) by every possible means is a key demand in China's economic construction, as without such effort raising the per capita index would be like water without a source. However, disregarding population as effective in the denominator would disregard the eminent effect of the huge population volume on the per capita index. Many of China's products have been developed very rapidly, for instance, grain, meat, aquatic products, cotton, cotton cloth, coal, cement, steel, glass, etc. and their production ranks at the top or among the top levels of world production, but computed on a per capita basis production is low in world ranking, a fact that can only be attributed to the excessively large denominator (population). The per capita index reflects the relationship between the two kinds of production, and also shows that it is the huge population volume that is the fundamental cause for China's low per capita index. Fast economic development combined with slow population growth can bring about a rise in the originally backward per capita index. On the other hand, China's per capita resources index, which is so very far behind the average world levels (arable land, forestry land, sweet water resources are only one-third, one-ninth, and one-quarter, respectively, of average world levels) will steadily deteriorate further because of the increases in population. It is not difficult to foresee that the day will come before the middle of the next century when the per capita arable land in China will be below 1 mu. The huge population volume will lead to an incongruity between population and resource utilization, and this will be an even greater challenge for China's survival and development.

The party report at its 14th National Congress stated: "Assessing the right or wrong, the success or failure, in the performance of any sector must, in the final analysis, accept the criterion of whether it has contributed to the development of the productive forces of the socialist society, to the overall enhancement of the national strength of the socialist state, and to the improvement of the people's living standard." This criterion is also completely applicable when we examine the mutual congruity between China's human reproduction and material production. China's present gross national product, averaged out according to its population, is, for certain important products and for the infrastructure, for fixed assets, etc., at the bottom of world rankings, and some do not even attain the levels of the developing countries. This clearly indicates that there is still a large disparity to overcome, if China is to attain mutual congruity between the two productions.

When family planning was first started in China in the 1970's, the most effective argument in its propaganda was that China already had a very large base population figure, its population growth was rapid, and the age structure of its population was a youthful one. At that time, women in the rural areas gave birth on the average to five children, and children below 15 years of age accounted for over 35 percent of the total population.

When it comes to our present days, effective implementation of family planning has very effectively reduced the birth rate, and nationwide average is already approaching "replacement level" (i.e. maintaining the level of simple reproduction). In the cities, especially in the large cities, and in some provinces it is already well below the "replacement level." The rate of annual natural population growth has also declined from above 2 percent to 1.5 percent, which is a very favorable level in the Third World. In some provinces, cities, and counties there are already symptoms of a negative population growth. In some regions the population of below 15 years of age accounts for only one-quarter and even only one-fifth of the total population, figures which are among the lowest figures throughout the world. In the above-stated three terms used to characterize the situation in China, the statement about China's very large basic population figure is the only term that is not yet outdated, but the explanations given for the nature of China's family planning, its purpose and its task, are, we feel, somewhat oversimplified and require new supplementations and a systematic exposition.

China's family planning has Chinese characteristics, and must not be considered as identical with family planning in other countries, although in translation the same word is used; this is indeed a loss of "truthfulness" that occurs here in the translation.

First, in China, the scope of family planning is one that covers the entire society. It starts out from a macro-overview and from considerations of the interests of the entire society. Family planning in other countries starts out from a microscopic view and from the particular number of children and particular birth intervals in the planning of individual families and individual persons.

Second, in China, family planning is conducted as one of the functions of government, while abroad it is mostly undertaken by private organizations.

Third, in China, family planning starts out from the realities of China, always regarding control of population volume and raising the quality of the population (this mainly refers to eugenic excellence and excellence in child raising) as one uniform entity, which is different from family planning abroad, where restriction of births is the one and only objective. In China, eugenic excellence and excellence in child raising are indispensable preconditions for the consolidation of the low birth rate, and this is becoming more and more important following the actual achievement of low levels of births.

Fourth, in China's family planning, the overall total of all births is the result of macro-consideration, and is therefore, objectively, producing a cushioning effect in the distribution and sexes of the population and on the adjustment of the age structure at different times, between urban and rural regions, and between different districts.

Judging by its objectives, tasks, and methods, family planning with Chinese characteristics is an organic component of the construction of socialism with Chinese characteristics. It is an indispensable link in the efforts to build up China into a prosperous, strong, democratic, and culturally rich country, with accomplished socialist modernization. The deeper and more remote objective of China's family planning is to render service to the modernization of China's population. This demands that it make contributions toward modernization of the type of population reproduction, modernization of the population quality, modernization of the type of population structure, and toward a healthy ageing of the population. The burden of this work during the entire initial stage of socialism will be heavy and the endeavor will be a protracted one. Family planning is a basic project in the struggle of the Chinese people for their right to exist and develop. Under no circumstances must there be any relaxation because an extremely small group of foreigners obstinately lump it together with questions of human rights; the work must be resolutely continued and perfected.

In recent years, implementation of the Central Committee and the State Council resolution for a strengthening of family planning work and strict control of population growth has resulted in a remarkable reduction of the Chinese birth rate. To have achieved this success during periods of peak births is highly commendable, but must certainly not be a reason to relax further efforts.

First, one of the major reasons for the present decline in birth and fertility rates is the elevated marriageable age for women of childbearing age and the reduction of repeated births, but after some time there could be a relapse, and there are indeed still many areas of high childbirths, so that we must not lower our guard in this respect.

Second, China has a population of over 300 million women of childbearing age. The social, economic, and cultural situation has not yet reached the turning point when fewer childbirths would be demanded spontaneously. Consolidating the past achievements of family planning still requires much propagandistic work and work in service to society. One must not expect that the work has now been done once and for all. If a relapse would be allowed to occur, the task would require double the effort for only half the result.

Third, population growth develops in a wave pattern. After a peak occurs, there is bound to be another peak 20-odd years later. We are presently at the top of the third peak of childbirths, and in the next century there is bound to occur the fourth peak of childbirths, though of a somewhat more moderate dimension. We must under no circumstances be shortsighted about it.

Fourth, population growth possesses its own inertia. Even if the birth rate arrives at the "replacement level," population may still continue to grow. When the birth

rate in the present developing countries reaches "replacement level," it will take another 30 to 50 years until zero population growth is achieved.

Since reform and opening up, some labor and talent markets have appeared in the urban and rural areas of China, and by having a direct meeting of supply and demand, it was possible to channel some manpower and some talents to places where they can be more effective. This is beneficial for the development of productive forces and is a start in breaking down the pattern of manpower distribution of the planned economy. China is in the process of establishing a system of socialist market economy. This new situation is also posing new challenges for our population theory:

1) Population reproduction is the natural foundation for reproduction of the work force population. If the work force is subject to market regulation, must population births also be regulated by the market economy?

2) All developed countries, without exception, are operating under the system of market economy. Without government interference in population reproduction, they all have low birth rates, and some have reached, or are about to reach zero population increases. Finally, opinions are voiced in China and abroad that after China has instituted market economy, it will only require the proper development of its economy to have its birth rate quite naturally go down, and population growth to be low or even zero. In 1984, at the Second International Population Conference in Mexico, the U.S. delegate openly declared that China will only be able to resolve its population problem by instituting a free economy. His purpose was obviously to have China abandon its present family planning policy and have China adopt a laissez-faire attitude in matters of birth control, but there is absolutely no way that we could be duped into doing that.

Under the new situation, there has to be a further emancipation of minds and renovation of concepts in our research of population theories. Judging by the actual conditions prevailing in China, regulation by the market of population reproduction is definitely not an objective or demand of the establishment of a system of socialist market economy.

First, in China family planning and population control is viewed from the angle of the society as a whole, while the market mechanism can regulate only a part of the work force, and cannot directly influence births of the entire population. There is, furthermore, a "time gap" of at least 15 to 20 years between the birth of a population and its having grown up into work force. In our fast changing times, it would be unrealistic to consider manpower needs 20 years hence on the basis of present manpower needs. Actually, what the market primarily influences is population movement and the demand for training a population of working ages, but not the problem of reproduction of the work force population.

Second, the labor market is presently not yet sufficiently developed in China at the present stage, and information is also not effectively spread. Some directives are false and erroneous. It is therefore not possible to guide family by family, household by household, toward spontaneously restricting births; there will always be a part of the people that will not exercise restraints in childbirths. In a macro-overview of the situation we see that China has already a huge contingent of surplus manpower. Relying only on market regulation to slow down the manpower increase, and as a consequence automatically reduce the birthrate, is unrealistic.

Third, population reproduction is not at all completely restrained by economic factors, but to a considerable extent influenced by social and cultural factors, and by the forces of ethnic customs and habits. This is so because market economy relies on such economic elements as the supply-demand relations, which frequently do not have a regulatory effect, the more so since many regions in China are economically not sufficiently developed. If the macro-guidance is lacking, and if there is also no propagandistic education for family planning and no coordinated social services, and if, furthermore, the said social and cultural factors and traditional customs are allowed free rein, the population inflation is bound to continue for a long time to come.

The practical experiences of the Western developed countries, where the population growth rate declined spontaneously, are of no reference value for today's China, because the national conditions are so different, and also because of the differences of the eras concerned and the stages of development.

'Changing Perception' of Childbearing Reported

94CE0207A Beijing RENKOU YU JINGJI
[POPULATION AND ECONOMICS] in Chinese No 80,
25 Oct 93 pp 63-64

[Article by Ye Mingde (0673 2494 1795): "Summary of a Seminar on Changes in the Perception of Childbearing Among People in Poverty Regions"]

[Excerpts] Under item P04, entitled "Study of Population Problems in 23 Poverty Counties in China," a "Seminar on Changes in the Perception of Childbearing Among the People of Poverty Regions in China" was held, 5-11 April 1993, at Guilin City. [passage omitted]

III. Reasons for the Change in Perception of Childbearing Among People in Poverty Regions

At the hand of a large array of examples, the participants showed that although economic development was the ultimate cause that led to the change in the people's perception of childbearing, there was not at all a simple linear relation between economic growth and the change in the people's perception of childbearing. Under certain circumstances, economic growth would even stimulate the desire to have more children. As things are today, the

limited economic growth in poverty regions is not sufficient to induce changes in the people's perception of childbearing. People in some poverty counties have been comparatively quick to change their perception of childbearing, mainly because of ideological education and the guidance of government policy. For instance, in the Longsheng Multinational Autonomous County of Guangxi Province and in Panan County of Zhejiang Province, the leading cadres at all levels had paid most serious attention to population control affairs and had devoted considerable manpower and material resources to propagandistic education. In the Longsheng Multinational Autonomous County, per capita investment in family planning is in excess of seven yuan. Moreover, the change in perception of childbearing among the people of poverty counties is also due to such factors as the development of educational and public health affairs, a relative opening up of society, and the spreading influence of the large and medium-sized cities.

IV. Factors Restraining the Change of Perception of Childbearing Among People in Poverty Regions

In the opinion of the participants, there are in the poverty regions more than in ordinary regions factors extant that restrain a change from the traditional perception of childbearing to its modern perception. The following are some of such restraining factors:

1. Poor natural conditions, backward productive forces. Production methods and tools are rather primitive in poverty regions, mechanization is at a low level, production relies mainly on human labor, and there is, therefore, indeed, objectively a need for many childbirths.
2. The educational level of the population is very low. For instance, in Luchun County of Yunnan Province, over 70 percent of the population are illiterate or semi-illiterate. Add to this the fact that as a society they are also isolated, a fact which seriously impairs their ability to accept new knowledge and new concepts.
3. The unitary system of the production structure has a detrimental effect on the employment of women. Women are occupying a very low economic and social position.
4. The weak social security system and the traditional ways of family-oriented care for the elderly has people believe in the need to "raise sons to provide for old age."
5. The very deep-rooted influence of traditional culture and customs. For instance, the people of Hani nationality in Luchun County of Yunnan Province have the customs of early marriages, of free premarital sex, the system of inheritance by the youngest son, the belief in the transmigration of the soul, and in the theory of the life-shortening effect of childbirths. All this makes people desirous of early births and many childbirths. The main group of Uygurs living in Shufu County of Xinjiang Province are mostly following the rules of the Islamic religion in matters of marriage and childbirths.

6. Some poverty regions have been receiving state relief for a long period of time, and this has some people develop a dependent mentality, which to some degree is hindering a change in their perception of childbearing. [passage omitted]

Population Statistics 'Inaccuracy' Analyzed

94CE0207B Beijing RENKOU YU JINGJI
[POPULATION AND ECONOMICS] in Chinese No 80,
25 Oct 93 pp 53-56

[Article by Wang Xiaojun (3769 2556 6511), Population Institute, China People's University: "Study of Improving the Quality of Population Statistics as Related to the Regularity of Family Planning Statistics"]

[Excerpts] [passage omitted]

II. Analysis of the Reasons for Inaccuracy in Population Statistics and Regularity of Family Planning Statistics

There are many reasons for the inaccuracy in population statistics and in the regularity of family planning statistics. Some are due to the statistics themselves, but others are due to non-statistical aspects. For a clear analysis of the reasons for the inaccuracy of population statistics in relation to the regularity of family planning statistics, we shall here distinguish, according to whether the errors are man-made and intentional, between unintentional and intentional errors.

A. Unintentional Errors

Unintentional errors are then those that are not man-made and not intentionally caused by human action. This kind of error may be due to statistical or also due to non-statistical causes. The following are some circumstances that generally cause such errors:

1. One of the major reasons for statistical omissions and reporting errors are the dysfunctional conditions of basic statistical recording and in card management. Some regions have not yet set up basic statistical records and cards. Others, that have already set up statistical records and cards, are disorderly in keeping these records, or, having set them up once, neglect keeping them up-to-date. These records will then be as at a standstill and useless. In some cases they are also not kept properly classified by items.

2. Inappropriate statistics organization, incompetent statistics personnel. Statistical work requires a statistical organization and statistical personnel at six levels, namely at the state, provincial, prefectural, county, town, and village levels. At present, many localities do not fulfill these basic requirements. Below the town level there is on the whole no full time statistical personnel, and statistical affairs are taken care of concurrently by cadres in charge of family planning, or by people who are not released from production or other duties. Most of

these people are poorly educated, they have also generally not received the necessary training and are hardly fit for what is a fairly complicated job.

3. Lack of a scientific and rational system of population and family planning indices. Certain indices which should not be included within the scope of family planning, are listed as important indices in some localities. For instance, it is for the civil administration or the public security agencies to register divorces, deaths of spouses, and remarriages, while family planning work is mainly to guide people to reproduce according to plan. Besides, there are large differences between different localities in some indices concerning the same matter. For instance, for the index to show multiple births, what are actually used are indices called rate of multiple children, extra-plan multiple children, number of extra-plan pregnancies, number of multiple children, etc. Furthermore, the rate of plan-conforming childbirths are given different meanings. Some places take as plan-conforming childbirths those that have been arranged for according to the present year's plan and for which childbirth certificates have been issued, while others take as plan-conforming births those that conform with the state and local family planning plans. Others again consider the first childbirth at mature age and the second childbirth permitted by state policy, that conform to the plan, as plan-conforming childbirths. These differences make comparisons between districts very difficult and at the same time hinder examination and checking of indices at the various localities.

4. Statistical methods and methods of checking the quality of statistics are comparatively backward. Registration of original data and much of the summarizing of statistical data from all levels below the provinces (municipalities), prefectures, and counties are carried out by hand, and the original records at many places are not taken down whenever events happen, but are done in a rush at the end of the month. It is very easy for mistakes in recording and summarizing to occur in this manner. There is also no efficient method for an effective check of the quality of the statistical data, and any examination and supervision of the quality of the statistical data will therefore hardly help control statistical errors.

5. Leading cadres in charge of family planning at all levels and personnel engaged in family planning work are still not yet fully aware of the important meaning of population statistics as related to the regularity of family planning statistics, and they do not attach sufficient importance to the quality of regularity statistics. These too are important reasons for the untruthfulness of statistics. There is also the fact that the "Law Governing Statistics" has not been seriously implemented. There is a law, but it is being disregarded, and as a result the law concerning population regularity statistics cannot fully exert its efficacy.

B. Intentional Errors

Intentional errors are man-made and purposely created errors. They have to do with the ideological and moral qualities of persons, and are not due to the statistics in themselves. They generally comprise the following kinds:

1. Due to the comparatively serious social, economic, and educational backwardness in China's rural areas, the desires of many peasants with regard to childbirths are not in conformity with what government policy demands. As a consequence, an excessive population is being created in violation of government policy on planned childbirths. To evade punishment, the peasants will conceal facts by every possible means. Personnel in charge of family planning work will thus be left ignorant of the true situation and will submit incomplete reports.

2. Family planning statistics at the basic level in the rural areas are in general prepared concurrently by cadres in charge of family planning. In order to ensure fulfillment of the plan handed down by higher authority, and in order to get credited with good achievements, these cadres will conceal some facts and omit them from their reports. In actual work situations, there are in general two circumstances that will have basic level personnel in charge of statistics intentionally submit incomplete reports. One is that work at the basic level is of poor quality, that great difficulties are encountered, and that it is impossible to fulfill the plan, or that some higher ranking family planning department, to retain some extra margin within the plan norms at its own level, when distributing population plan norms, will retain a margin for itself at every level, thus making basic plan norms excessively high and tight, to satisfy the plan, and will then intentionally compile incomplete reports to evade responsibility. The other kind is the effect of unhealthy tendencies in society and consists of the intentional omission of registrations in order to be credited with better achievements.

3. Some cadres in charge of implementing government policy or some leading cadres, especially those at the village level, are affected by unhealthy tendencies and submit false reports of achievements. It was particularly after it was pointed out in the "Resolution on Strengthening Family Planning Work and on Strict Control of Population Growth," passed May 1991 by the CPC Central Committee and the State Council: "We shall make effective family planning work and fulfillment of population plans important indices in the assessment of official achievements of party committees and governments at all levels," that family planning work could be "one count against" in the assessment of an agency's achievements. Thus, population as related with family planning became of crucial importance in the assessment of governments and of the achievements in the official careers of major leading cadres at all levels, which would then also be critical for their promotions or demotions. Some leading cadres of less than perfect character would then resort to deception and falsify or forge statistical data. This is the main reason for intentional false reports.

The above-mentioned three kinds of intentional false reports are usually interrelated and made use of together. Because incomplete and false reports occur at the three levels, namely with individuals among the general public, with statistics personnel, and with leading cadres,

taking all these together, the intentional false reports have become the primary cause for the inaccuracy of population statistics as related to family planning statistics. At the same time, their joint occurrence has the effect of increasing the obstruction against the elimination of false reports and of increasing the difficulties of such efforts. [passage omitted]

AGRICULTURE

Anhui Grain Storage, Procurement

94CE0181X Hefei ANHUI RIBAO in Chinese
19 Dec 93 p 1

[Summary] As of 10 December, Anhui Province had put 5,278,500,000 kilograms of grain in storage, an increase of 82.5 million kilograms over 1992. At present, Anhui has procured 10.5 billion jin of grain at state-set and negotiated prices.

Anhui Rural Savings

94CE0181Y Hefei ANHUI RIBAO in Chinese
14 Dec 93 p 1

[Summary] As of 20 November, rural saving deposits in agricultural banks and rural cooperatives in Anhui Province totaled 11.86 billion yuan and 10.26 billion yuan respectively, increases of 1.79 billion yuan and 2.26 billion yuan over the beginning of 1993. From January to October, agricultural banks and rural cooperatives allocated 5.5 billion yuan in loans, an increase of 900 million yuan over the same period in 1992. By the end of October, agricultural banks allocated 8.4 billion yuan in procurement funds, a 42 percent increase over the same period in 1992.

Heilongjiang Grain Procurement

94CE0181W Harbin HEILONGJIANG RIBAO
in Chinese 26 Nov 93 p 1

[Summary] As of 24 November, Heilongjiang Province had procured 944 million kilograms of wheat, fulfilling 84.1 percent of the task; 472 kilograms of soybeans, fulfilling 44 percent of the task; 100 million kilograms of rice, fulfilling 17 percent of the task; and 145 kilograms of corn, fulfilling 1.2 percent of the task. Heilongjiang plans to procure 5 billion kilograms of grain at negotiated prices, at present 50 million kilograms have been procured.

Jiangsu Autumn Grain, Rape Area

94CE0181V Nanjing XINHUA RIBAO in Chinese
25 Nov 93 p 1

[Summary] The autumn grain and rape area in Jiangsu Province is 3,092,000 hectares. The autumn rape area is 542,400 hectares, an increase of 80,000 hectares over the summer area. The grain area fulfills 95.6 percent of the guidance plan. The wheat area has declined, but the barley and broad bean area have increased.

Book Chronicling 'Youth Resistance' Reviewed

94CM0105A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 11, 1 Nov 93 pp 97-99

[Article by Pi Hua (3880 5478): "The Frontier Corps' Bloody Archives—A Study of *Dreams of Educated Chinese Youth*"—First paragraph is introduction.]

[Text] *An authentic literary work recording the suffering of educated Chinese youth reveals the little-known inside story of the cruel history of educated Chinese youth and their uprising in resistance. The reclamation corps regarded human life as worthless. The parading of a corpse touched off an earthshaking storm, awakening educated Chinese youth to rise in resistance.*

In the over four decades since the founding of the PRC, the CPC has practiced a brutal dictatorship, believing that it could rely on its powerful state apparatus to force its people into submission. While conscientious Chinese writers and artists would have reported this social reality in their works on behalf of the people, the PRC's literary and arts policy that permits eulogies but no exposures has long kept many writers afraid to touch such sensitive topics.

A Work Recording, Exposing the Brutal Treatment of Educated Chinese Youth

The recent appearance of the long literary record by the young Sichuan writer Deng Xian [6772 6343]—*Dreams of Educated Chinese Youth* (carried in the No 5, 1992 issue of the literary bimonthly TANG TAI, and published in a separate edition by the People's Literature Publishing House in April 1993)—has broken this taboo. *Dreams of Educated Chinese Youth* recounts the story of Mao Zedong's sending of educated Chinese youth down to the countryside and border areas for "reeducation," and their subsequent tide of demanding to return to the cities. In the words of this book's "synopsis," the author "uses full and accurate data and powerful artistic expression to reveal for the first time the inside story and whole course of the great [struggle to] return to the cities by educated Chinese youth, as well as the Frontier Corps' bloody archives."

This book is also significant in that: 1) It expresses in a work for the first time, through a record of the facts, the surging spectacle of the Chinese people's demonstration and stand for their lives against CPC tyranny. Even more rare is that the resistance ended in victory, demonstrating the theme that "tyranny must lose and the people will win." 2) Since the failure of the 1989 student movement, ultra-leftists have resurged, doing their utmost to defend past CPC crimes. So this book is also a forceful attack on such attempts to rewrite history.

The Construction Corps Was More Like a Reform-Through-Labor Camp

The policy of forcing large numbers of educated Chinese youth to the countryside, to submit to so-called "reeducation," was set forth by Mao Zedong in an editorial note

in RENMIN RIBAO [PEOPLE'S DAILY] on 21 December 1968: "Educated Chinese youth going to the countryside, to be reeducated by poor and lower-middle peasants, is very necessary."

Once Mao's "imperial edict" was issued, it immediately touched off the campaign of going to work in the countryside and mountain areas, which affected almost all urban families. The data show that by the end of 1978, 20 million educated Chinese youths had been sent down to the countryside or off to border areas. While Mao's slogan sounded very pleasant, the so-called "reeducation" was in fact consistent with his hostile actions against learning and intellectuals. His expelling of educated Chinese youth to the countryside was in fact consigning them to purgatory. *Dreams of Educated Youth* authentically recounts the many hair-raising crimes committed by Mao Zedong's cadres in tormenting the educated youth.

At the end of May 1973, XINHUA SHE [NEW CHINA NEWS AGENCY] reporter Li Ming [7812 2494] inadvertently saw in Jinping County, the encampment of the 18th Regiment of the Yunnan Production and Construction Corps, many prisoners laboring under escort by the People's Armed Police [PAP]. These convicts were very young and unkempt, sweating away at hard labor. When one of them asked a guard for a drink of water, not to speak of the excommunication, several militiamen also rushed over and beat this prisoner to the ground with their rifle butts. Then, his pitiful cry rang out in the boiling hot air: "FLA uncles, spare my life! Please spare my life...." Even more shocking were the female prisoner ranks that this reporter saw, with 17 and 18 year-old educated girls escorted by fiendish militiamen to hard labor in rock quarries. What he could not understand was: Why was the air there laden with such a bloody smell? Why was this construction corps more like a huge reform-through-labor camp?

A Uranium Mine With No Safety Measures

Here are the true facts. In the 18th Regiment, these soldiers had long since treated educated youth as prisoners to be wantonly hung up and beaten, humiliated, and even raped. One camp boss openly asserted: What have you come to the frontier for? To be remolded as "disloyal reform-through-labor convicts!"

According to a report (No 241) issued by the New China News Agency on 4 July 1973, 23 of the 18th Regiment's 31 units saw the occurrence of varying degrees of tying up, hanging up, and beating of educated youth. There were over 30 types of punishments, such as being roasted in the sun in the summer, and being doused with cold water in the winter. Some were beaten into cripples, some went mad, and others committed suicide. Many of the cadres in the Yunnan construction corps were sex fiends who ravaged educated young girls.

Even worse. Corps cadres acted with utter disregard for the lives of educated youth. In the late 1960s, a uranium mine was discovered in a desolate mountain pass of high

mountain ridges in Western Yunnan, which was taken over by the Construction Corps in 1970. Educated youth from the Corps' Fifth Division, 21st Regiment (Menggang farm) were sent there. While the mine had over 400 educated youths, whose main jobs were mining, picking, storing, and shipping, it had absolutely no safety or protective equipment, leaving many educated youths subject to long-term radiation that took their lives.

Educated Youth Parade a Corpse

"If the people do not fear death, how can they be cowed by it." As educated youths had limited patience, their discovery that their lives were being treated with utter disregard (with statistics showing that in the first 10 months of 1978 alone, the Yunnan Reclamation Area experienced as many as 153 unnatural deaths of educated youths, and other reclamation areas experienced many suicides as well) finally set off a wave of strikes and demonstrations.

The book relates in detail three later-publicized disturbances by educated youths in 1978 and early 1979.

The first was the parading of a corpse on 13 November 1978. This demonstration occurred in the Yunnan border region on the Ganlan Plains. The corps authorities' lack of concern for human life, plus bad doctoring by barefoot doctors, who acted irresponsibly by actually getting drunk and leaving during a difficult labor by an educated young woman, resulted in the pregnant female losing so much blood that both mother and child died. The unexpected death of this educated young woman left the other educated youth so in grief that their resentment quickly grew into resistance over the fate of educated youth in general.

This time, the CPC's consistently-utilized formula of pressure tactics did not work. As the camp's public security body and PAP were going into emergency action in preparation for forced disposition of the corpse, hundreds of educated youth who had heard the news rushed up, confronting the armed personnel with hoes, long knives, and iron clubs. Finally, they lifted up the corpse on their shoulders and set out for Jinghongzhen (the capital of the Xishuangbanna Autonomous Prefecture). They neither chanted radical slogans, presented vehement views, nor committed any violence. Rather, they simply bowed their heads, carrying the corpse of their companion who had died such an unfortunate death, in an attempt to win some basic human rights for both the living and the dead. Like an endless river, they flowed along slowly beneath the dark and gloomy November sky, finally sitting down for several days in front of the Prefectural Party Committee gates.

Only 24 hours after the occurrence of this incident, the news of it appeared through telegraphic dispatch in writing on the Xidan Democracy Wall in Beijing. Meanwhile, it affected all reclamation areas in the southwest. In a few short days, all of the eight large farms in the Banna Reclamation Area were faced with a serious

situation of educated youth being out of control emotionally. Educated youths from all of the farms went into action, contacting each other, establishing secret ties, and responding by the hundreds to a single call.

Victory of the Resistance Changes Their Fate

Who would have thought that the chance incident of an educated young woman's tragic death would become the fuse to set off an earthshaking wave of return to the cities by educated youth, to become the first roll of thunder that would result in hundreds of thousands of educated youths on Yunnan farms and even throughout China awakening in bold resistance.

The educated youth won a great and complete victory, in which the prefectural party committee met all of their demands: 1) It dealt severely with the doctors involved in the incident, investigating and affixing responsibility; 2) It treated the educated young woman as if she had died in public service, agreeing to hold a memorial meeting; 3) It better implemented the educated-youth policy, instructing farms to improve health care as quickly as possible, and to make overall plans for solving the existing problems in educated-youth lives.

The victory from this parading of a corpse sharply boosted the morale of educated youth to demonstrate against tyranny, paving the way for victory in the two subsequent strikes and demonstrations that called on the CPC to abolish its reactionary policy of sending educated urban youth to work in the countryside and mountain areas. The courage (a hundred laying down on the train tracks and a thousand going on a hunger strike) and tactics (absolutely peaceful and rational, to provide the authorities with no handles) displayed by the educated youth in these two magnificent actions, showed through and through the extent to which these young people had matured by steeling themselves to their miserable lives.

Firm Memories of the Ultra-Left Disaster

On his Spring 1992 southern tour, Deng Xiaoping set forth the key issue as guarding against the left. *Dreams of Educated Youth* was written in the midst of this anti-left tide, being in the same category as works such as *Anti-Left Memorandum* and *China's "Left" Disaster*.

Mao Zedong's policy of sending educated urban youth to work in the countryside and mountain areas has been negated by Deng Xiaoping. Deng's remarks on this policy were: "We spent 30 billion yuan to buy three discontents—educated youth, parents, and peasants." Still, the CPC has ultra-leftists who just cannot give up on this policy that has wasted our national wealth, ruined a whole generation of youths, and was such a disaster; they are still trying by all means to beautify it.

In 1990, Beijing held the "Spirits Tied to the Black Earth—A Retrospective on Wild Beijing University Youth," at which time ZHONGGUO QINGNIAN BAO also said that the policy of sending educated urban youth

to work in the countryside and mountain areas had "radiated a spirit of development and excellence." In the early spring of 1991, to commemorate the 20th anniversary of going to Yunnan in support of the border area, Chengdu held a large retrospective exhibition, with the general title "Youth Has No Regrets." Beneath this general title was an explanatory note borrowed from *Selected Poems by Pushkin*: "A Russian once said that all suffering will pass, and what is past will turn into a happy memory."

However, the author of *Dreams of Educated Youth* questions this view. He says in the "Introduction" that: "I cannot help but have certain instinctual doubts about the words of this Russian poet: If all past suffering does not turn into bitterness, then can the attitude of the Jews toward World War II, the Chinese toward the Nanjing

Massacre, and the Japanese toward the atom bomb be one of turning those nightmares into happy memories?" He holds that as history is an organic unity, "While we may forget honors, money, and the many shining laurels that may someday adorn our heads, we have no rationale for forgetting suffering, or its indelible historical brand that was forcibly stamped on us as individuals and as a whole." He asks: "If those 10 young girls who have already been forgotten and are forever sleeping in darkness (referring to the 10 educated young girls from Chengdu averaging only 17 and one-half years of age who died in a fire in Yunnan in 1971 while there in support of the border area) could speak out from the grave, what would they say? If they had the right to choose their lives again, would they opt to be educated youths? Would they have no regrets?"

Journal Views Taiwan F-5 Fighter Upgrade

94CM0101A Beijing JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS] in Chinese No 10, 8 Oct 93 pp 11-12

[Article by Jiang Yan (6199 6056): "Taiwan's New Modified Fighter, the F-5E SX"]

[Excerpts] Early in 1993, the Taiwan media reported that the military was preparing to modify its antiquated F-5E fighters. After modification, 90 of these F-5E SX fighters would join the new fighter aircraft line-up made up of F-16s, Mirage 2000's, and the IDF. Coming as it did in the wake of Taiwan's having signed an agreement with the United States and France to import fighter aircraft, Taiwan's continued use of these fighters, which it had originally planned to replace, cannot help but arouse some interest about the newly modified F-5E SXs. [passage omitted]

Possible Combat Tactics

The F-16s and Mirage 200-5s in Taiwan's new fighter aircraft lineup are superior quality aircraft, while the IDF and the F-5E SXs are relatively lower quality aircraft. When used to attack surface targets (including on water), generally speaking, the attacking force capabilities (bomb load and attack accuracy), as well as the penetration capabilities of superior quality aircraft are somewhat greater than for lower quality aircraft; however, if low performance aircraft have accurately guided weapons, they also can complete their mission fairly well. When they run into the opponent's air defenses, the survivability of high-priced, superior quality aircraft is not all that much better than for lower quality aircraft. This point was made extremely clear during the Gulf War. However, in aerial warfare, the performance of superior quality aircraft is markedly higher than that of low performance aircraft. This demonstrates that when combat using both superior quality and lower quality aircraft is waged, the basic method should be as follows: Use of the superior quality aircraft primarily for aerial warfare, and the lower performance aircraft mostly for ground combat. When needed, the two kinds of aircraft may be changed around. This means that as a lower quality aircraft, the F-5E SX would be used mostly in attacks on the ground (or water), but when a large scale enemy aerial attack is encountered, if there are not enough superior quality aircraft to put up a fight, the F-5E SX would also join the aerial war.

Taiwan is surrounded by the sea. The nearest threat to its land area, one might say, comes from the opponent's surface vessel units. According to the laws of combat, the objective to be attacked first is naturally the one that is nearest and that poses the greatest threat. This means that Taiwan will send out fighters to assault the opponent's nearest surface vessel forces. If the enemy has fighter planes up to protect its vessel formations, the two sides will engage in aerial warfare. The F-5E SX's could carry out attacks against the opponent's vessels, but they could not easily protect themselves.

Data show that the F-5E SXs do not carry air-to-ship missiles; thus, they do not have a distant warfare capability against ships. However, Taiwan does have 60 Mirage 2000-5s that carry Exocet air-to-ship missiles. During wartime, the air-to-ship missiles could be used first in attacks against the opponent's ship formations, followed by the F-5E SXs' dropping bombs to exploit the results. In addition, Taiwan has nearly 40 S-2 anti-submarine patrol aircraft, and it has ordered four E-2 early warning plans from the United States. When an armed attack occurs, it can use the S-2s for continuous patrolling of key ocean areas, and during major combat activity, it can use the E-2s for command and control, thereby greatly improving combat performance.

Given the F-5E SXs' performance, the main tactics that might be employed in order to evade the opponents' aircraft, missiles, and anti-aircraft fire while attacking surface vessels might very well be low altitude attacks using small forces in multiple sorties from many directions, while frequently changing speed, altitude, and direction on the flight path. After coming within striking distance of the opponent's ships, the planes could deliver a diving attack and then break off rapidly. At night, they could switch from a visual attack to a radar-guided attack to carry out more horizontal bombing runs. When the aircraft's radar is jammed, they could use an "illuminated attack," meaning having a single plane fly rapidly over the opponent's vessels and drop flares. The other aircraft would then use the light of the flares to conduct visually aimed attacks. With the flares at an altitude of between 1,000 and 2,000 meters, they could drop two to four bombs on each run, and make several runs.

Faced with a serious aerial attack threat, when superior quality aircraft are insufficient to complete an attack mission, the F-5E SXs would be used in aerial combat. Because of the fairly small number of them, and their relatively low technological level and combat capability, their aerial combat role would be to intensify and augment that of the superior quality aircraft. In wartime, the F-5E SX's would be under the command and control of the E-2 early warning aircraft. They would use Sky Sword II air-to-air missiles in combat at long range avoiding close-in combat insofar as possible. When unavoidable, after firing their Sky Sword II air-to-air missiles, they would continue to press the enemy and engage in combat at close quarters. To increase their combat effectiveness, the F-5E SX's would concentrate their strength to attain partial superiority in numbers in the aerial combat zone. At the same time, the F-5E SX's could work together with the superior quality aircraft in the electronic jamming of the opponents aircraft, and send some aircraft in strikes against the opponent's important land targets (sea and air bases).

One final point worth mentioning is that many countries and territories of the world (including many countries of Southeast Asia) are still using F-5 fighter planes today, the number of planes totaling more than 1,000. If Taiwan is successful in modifying the F-5E SX, the countries and regions that have F-5's will certainly be very interested.

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